

# LA in Focus: The Tourism Industry Today



## Summary

Los Angeles' tourism industry has historically been a top contributor to the city's economy. However, the compounded effects of a lagging pandemic recovery, the devastating wildfires, soaring operational costs, and decreased international travel have brought the hospitality industry to an inflection point. If the situation does not improve soon, the industry anticipates more permanent hotel closures and worker layoffs, which would impact thousands of residents, cost the city millions in tax revenue, and jeopardize the success of upcoming major international events such as the World Cup and Olympics.

Los Angeles is facing a \$1 billion budget shortfall, which may result in layoffs of city workers and cuts to critical city services.<sup>1</sup> At the same time, the city council is considering proposals that could result in layoffs of thousands of tourism workers and lead to the closure of hotels and airport operations.

This report highlights the challenges the hotel and greater Los Angeles tourism industries are facing and how the Los Angeles City Council's proposal to significantly amend the Hotel Worker Minimum Wage Ordinance will exacerbate the city's current dire economic situation.

## Industry Snapshot



The tourism industry is one of the top five employers in Los Angeles County, supporting more than 540,000 Angelenos. In 2023, the tourism industry generated more than \$40 billion in local business sales and \$290 million in transient occupancy tax revenue (TOT).<sup>2</sup> TOT represents the largest source of unrestricted funds for the city, which provides significant revenue for services like police, fire, and sanitation. Unfortunately, with a slower-than-anticipated pandemic recovery coupled with numerous other growing issues, including the impacts of the recent wildfires on the tourism industry, the City of Los Angeles is experiencing worsening TOT budget shortfalls. For FY23-24, the city experienced a \$14.3 million TOT budget shortfall. For midyear FY24-25, the budget shortfall grew to \$13.9 million in just the first six months.<sup>3</sup>

## Why is the Industry Concerned?

### Decreased Travel Demand

Los Angeles is at the bottom of the list of major cities recovering from the COVID-19 pandemic. In 2023, the city had yet to fully regain pre-pandemic tourism levels, with international visitors reaching only 79% of 2019 levels.<sup>4</sup>

International visitors are crucial to the city's tourism recovery. While they represent 23% of overnight

<sup>1</sup> Shawn Hubler and Orlando Mayorquín. Los Angeles Faces Nearly \$1 Billion Deficit as it Rebuilds from Fires. (The New York Times, 2025).

<sup>2</sup> Los Angeles Tourism. Los Angeles Tourism 2023 Community Benefits Fact Sheet. (2024)

<sup>3</sup> Matthew W. Szabo, Los Angeles City Administrative Officer. Third (Mid-Year) Financial Status Report 2024-2025 Budget. (2025).

<sup>4</sup> Jenna Graber. Following Wildfires, LA Hotels Grapple With 'Significant Financial Burdens.' (Hotel Dive, 2025).

visitation in Los Angeles, they account for more than 49% of overnight visitor spending.<sup>5</sup>

Notably, California is one of the top five inbound markets from Canada, with more than 1.8 million visitors to the state in 2023.<sup>6</sup> In February 2025, inbound travel from Canada to the U.S. decreased nearly 15%.<sup>7</sup> While the total impacts have yet to be actualized, we can expect that decreased travel demand to the U.S. from Canada and other international markets will impact the Los Angeles area.

## Industry Snapshot



Across the board, hotel operating costs are rising twice as fast as revenue. Below are the key drivers of increased operating costs.

**Labor Costs:** Labor expenses account for approximately 50% of a hotel's total costs and have consistently outpaced revenue growth since 2020.<sup>8</sup>

**Inflation:** The hotel industry continues to face substantial challenges due to escalating costs of goods and supplies, largely driven by the pandemic and inflation. Before the pandemic, annual inflation was 2.3%. However, this rate surged to 7% in 2021 before moderating to 2.6% today.<sup>21</sup> Inflation has put pressure on the increased cost of goods. While data has yet to materialize, new tariffs are also expected to increase the cost of goods.<sup>9</sup>

**Insurance Premiums:** In 2023, California hotel insurance costs increased by 28.1%, significantly outpacing the national average. While 2024 saw a slower increase of 11.8%, rising natural disasters and supply chain disruptions continue to drive costs higher. Many small and mid-sized hotels—already struggling under financial strain—are being priced out of adequate coverage, increasing their vulnerability to future crises.<sup>10</sup> We further anticipate increased rates as a result of the recent wildfires.

**Interest Rates:** Hotel commercial loan rates have experienced a substantial increase since the onset of the pandemic. Initially, the pandemic led to a significant decline in hotel demand, with occupancy rates plummeting as travel restrictions and health concerns took hold. This downturn made lenders more cautious, resulting in stricter lending criteria and higher interest rates for hotel financing. Most hotel loans are tied to the five- and 10-year Treasury rates, which have gone up since the Federal Reserve started cutting rates—making it very tough for hotel owners to get refinanced out of the loans that are coming due.<sup>11</sup>

## Why the City Council Should Be Concerned

### Los Angeles Hotels are Permanently Closing

In recent months, two Los Angeles hotels comprising of more than 270 employees issued Worker Adjustment and Retraining Notifications (WARN) notices for their permanent closures.<sup>12,13</sup>

### Investors Not Purchasing Deeply Discounted Los Angeles Hotels

According to a report produced by JLL in November 2024, the City of Los Angeles was the top hotel investor in the last twenty-four months, spending more than \$95 million on properties.<sup>22</sup>

<sup>5</sup> Maurice Robie. Visitors From Abroad Power California's Biggest Export. (Travel Matters CA, 2018)

<sup>6</sup> California International Market Share in 2023. (Visit California, 2024).

<sup>7</sup> John Paul Tasker. Cross-border trips to the U.S. reach post-Covid lows with a nearly 15% drop in daily travellers from Canada. (CBC News, 2025).

<sup>8</sup> Oxford Economics. Economic Impact of the US Hotel Industry. (2025).

<sup>9</sup> Congressional Budget Office. A Visual Guide to Inflation From 2020 Through 2023. (2024).

<sup>10</sup> Jenna Graber. Following Wildfires, LA Hotels Grapple With 'Significant Financial Burdens.' (Hotel Dive, 2025).

<sup>11</sup> Bryan Wroten. Hotel Industry Experts Say Fed's Latest Rate Cut Won't Help US Hotels Much. (CoStar, 2024).

<sup>12</sup> WARNTracker.com. 3 WARN Layoff Notices for Four Points Sheraton from Mar 2020 to Apr 2025. (2025).

<sup>13</sup> WARNTracker.com. 1 WARN Layoff Notice for Mama Management USA LLC on Jan 2025. (2025)

<sup>21</sup> USAFacts.org. What is the current inflation rate in the United States? (2025)

<sup>22</sup> JLL. Los Angeles Hotel Investment Market. (2024).

The next five purchasers were Volunteers of America Los Angeles, American Family Housing, the Coalition for Responsible Community Development, Hope of the Valley Rescue Mission, and Covenant House CA. This data makes clear that many institutional and real estate investors do not view Los Angeles as a top market for hotel investments, even deeply discounted ones. In fact, in October 2024, the CoStar Hospitality Market Report stressed that “high interest rates, hotel union labor strikes and recent legislation impact hotel development and investment activity.”<sup>19</sup> The report found that “the investment community is uncertain about labor expenses, increased taxes, and consistently changing and new proposed legislation that impacts hotel valuations and operations.”

## Possible Domino Effect Unfolding: Los Angeles Businesses Collapsing in 2025

The commercial mortgage-backed securities (CMBS) loan default watchlist identified twenty Los Angeles-area hotels as susceptible to loan default this year.<sup>20</sup> Coupled with the financial pressures of increased operating costs cited above, these properties could potentially also be pushed into foreclosure, leading to job losses, room shortages, and a significantly diminished tax base for the city beyond the current projections.

In addition to the hotel industry, multiple other Los Angeles businesses impacted by the city council’s proposed ordinance, such as airlines and airport concessionaires, have ceased or significantly scaled back operations.

Allegiant Air will end its crew-based operations in Los Angeles effective September 2, 2025. This base closure will result in the elimination of nine routes to LAX.<sup>14</sup>

Southwest Airlines is laying off 1,750 employees with the most substantial reductions at LAX and Burbank Airports.<sup>15</sup>

HMSHost at LAX is laying off more than 120 employees.<sup>16</sup>

## Enacting New Hotel Mandates Would Exacerbate City’s Dire Economic Situation



The Los Angeles City Council is putting forth a new proposal that would have even more devastating ramifications for the city. The city council is mandating a drastic wage increase for tourism workers at hotels and airports. **According to Oxford Economics, the proposal could result in the elimination of 14,000 hotel workers, cost \$169 million in state and local tax revenue, and discourage \$342 million in hotel construction spending.**<sup>17</sup> The proposal, if enacted, would take effect July 1, 2025, which gradually increases the tourism minimum wage to \$30 per hour. This is a short time period for such a drastic increase. Such a drastic wage increase is unsustainable combined with the various other pressures the hotel industry is facing. Hoteliers may be forced to reduce staff, cut hours, reduce amenities, or close altogether. The economic toll will extend far beyond the hospitality industry, affecting restaurants, entertainment venues, and small businesses that rely on a thriving tourism sector.

<sup>14</sup> Osman Jamil. Allegiant To Close LA Crew Base After 16 Years. (Airways Magazine, 2025).

<sup>15</sup> Southwest Airlines to Lay Off Workers At LAX, Hollywood Burbank Airport, Other Airports. (ABC7 Los Angeles, 2025).

<sup>16</sup> WARNTracker.com. 136 WARN Layoff Notices for HMSHost from Dec 2004 to Apr 2024. (2024)

<sup>17</sup> Oxford Economics. Economic Impact of City Council Motion (April 12, 2023) to Amend LWO and LA HWMO. (2023).

<sup>19</sup> CoStar. October Market Hospitality Report. (2024).

<sup>20</sup> CMBS. December Loan Performance Data. (2024).

As **Councilwoman Monica Rodriguez** starkly warned,



“We don’t want to have the best-paid, unemployed workforce in the country.”

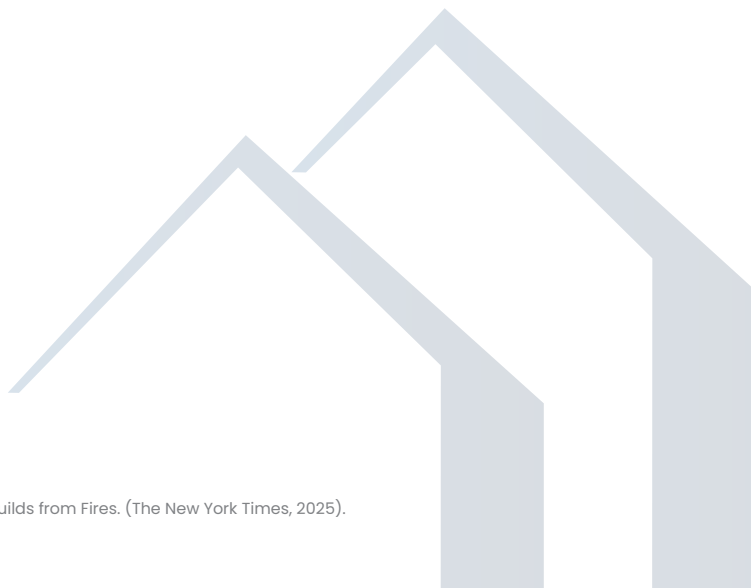
## Conclusion

### LA’s Hospitality Industry is Nearing an Irreversible Tipping Point

The Los Angeles hotel industry is confronting an unparalleled crisis. Still reeling from the long-term effects of the COVID-19 pandemic, hotel operators now face soaring labor costs driven by a combination of economic factors and enacted labor mandates, including this proposal to implement the country’s most expensive hotel worker wages and benefits law. Compounding these challenges is declining tourism due to the January wildfires and rising global tensions. These factors collectively threaten the sustainability of the city’s hospitality sector. If unaddressed, the city risks widespread hotel closures, significant job losses, and a weakened tourism economy. This precarious situation is further exacerbated by Los Angeles’ looming budget deficit, underscoring the urgent need for the city to protect its business community.

As the city looks to the future, it is faced with major events that need the support of the tourism industry. Millions of people will be visiting Los Angeles for the Super Bowl, World Cup, and Olympics. If this policy goes into effect, many hoteliers worry that their room blocks will be compromised and that the hotels will be unable to meet the demand due to decreased services and staffing reductions.

The path forward requires balance. Supporting hotel workers is important, but imposing unsustainable labor costs threatens not only businesses but also the very jobs these policies aim to support. With Los Angeles facing a projected \$1 billion budget shortfall, the need to protect and revitalize key economic sectors like hospitality has never been more critical.<sup>18</sup> LA’s hospitality sector is a vital economic driver—without immediate policy intervention, the long-term damage could be irreversible. To ensure the city remains a thriving tourism hub and to mitigate further financial shortfalls, policymakers must act now to prevent the collapse of the hotel industry and the economic fallout that would inevitably follow.



<sup>18</sup> Shawn Hubler and Orlando Mayorquín. Los Angeles Faces Nearly \$1 Billion Deficit as it Rebuilds from Fires. (The New York Times, 2025).