Business Case for Sustainable Hotels

Recommendations for franchisees

March 2020

Responsible hospitality for a better world

Executive summary

Climate crises and the hospitality industry

Global emissions grew more quickly between 2000 and 2010 than in each of the previous three decades,[1] and every decade since the 1960s has been warmer than the one before.[2] The rising emissions are accelerating climate change with considerable impacts across communities and ecosystems, businesses and economies.

The hospitality industry is particularly exposed, with extreme weather events increasing the cost of operations whilst simultaneously decreasing the popularity of some destinations across the world. The water crisis in Cape Town in 2018, for example, led to up to a USD 65 million shortfall in the region's hospitality industry.[3] This provides a stark illustration of direct risks to businesses if we fail to prepare for sustainability-related crises.

Like other industries, the hotel sector is a growing industry that needs to limit its carbon emissions. Our research identified that the industry needs to reduce its carbon emissions by 66 per cent per room by 2030 and 90 per cent per room by 2050[4] to ensure that the predicted growth does not lead to a corresponding increase in carbon emissions.

However, the complex business model – whereby hotels are built and owned by different businesses or individuals than the brands and companies that run them – can hinder the ability to implement sustainable solutions or operate more sustainably. There is a need to engage across the industry value chain from owners and investors to brands, operators and franchisees, to encourage a more joined up approach to building, refurbishing and operating a hotel.

In collaboration with International Finance Corporation (IFC), we have prepared this business case so the benefits of sustainability – financial, reputational and regulatory – can be fully recognised for every stakeholder and fully implemented as a consequence.

Action is not just necessary to protect destinations and communities but, as this research reveals, will be the only way to ensure hotels and operations are future proofed and will yield considerable benefits for all stakeholders in both the short and long term.

> **"As the UN Sustainable Development Goals have shown, the risks of not acting are too big to overlook, but so too are the opportunities to reduce costs, increase revenue, and future proof your properties and investments."**
>
> **Madhu Rajesh, Director, Sustainable Hospitality Alliance**

The business case for sustainable hotels

Far from being an impediment to business, sustainable hotel design in new builds and retrofits offers considerable benefits for all stakeholders.

1. Boost profit margins through utility savings

A sustainable building is at least 20% more resource efficient, which reduces utility costs. Savings can be shared between owners and operators through green leasing agreements.

Sustainability upgrades have a typical payback period of less than one year in utility savings for new builds and from one to ten years for retrofits (IFC)

53% of North American companies have corporate sustainability programs that affect their decision to contract with a travel supplier (GBTA)

2. Increase revenue through satisfying consumer preference and reducing reputational risk

Demand among individual and business travellers for greater environmental sustainability is increasing and travellers are looking for more transparency to inform their decisions. Businesses are increasing scrutiny on sustainability during RFPs and reviews of hotel companies.

3. Future proof investment strategies

Investing in hotel portfolios with strong environmental, social and governance (ESG) metrics and brand reputation mitigates future risk to revenue and opens doors to green finance mechanisms such as ESG-linked loans and green bonds created by financial institutions (e.g. IFC), banks and REITs.

IFC has financed $5.4 billion in green buildings, of which almost $1 billion were green hotels

Mandatory national schemes such as NABERS in Australia have saved $870 million in energy bills since 2010 for commercial building owners and managers

4. Safeguard against regulatory risk and benefit from incentives

Governments and cities worldwide are introducing a wide variety of penalties such as carbon taxes or restrictive water policies, and inducements such as VAT forgiveness, expedited permitting and property tax incentives to encourage sustainable design.

5. Increase value and validation through certification

Certifying hotel buildings increases their value and competitiveness today and for the future, ensuring their alignment with the latest sustainability requirements, while also providing credible evidence for government schemes and customers.

$169 **$160** **Average daily room rate of hotels in the United States (CHR)**

Commercial PV system cost decrease between 2010 and 2018 (NREL)

66%

6. Ensure a long-term energy supply

Most renewable energy sources are now cheaper than fossil fuels, and investing in hotels' on-site renewable power can increase security and control over supply and costs.

Recommendations for franchisees

Background and key arguments

The franchisee model is heavily dependent on the brand reputation of the hotel chain. As both individual and business travellers continue to demand greater environmental practice from the brands they buy into, the sustainability ethos of the brand will have an increasingly greater impact on your property's long-term profitability.

The relative independence of the franchisee is an opportunity to go beyond minimum brand requirements and set properties apart through their environmental excellence. Consumer trends indicate a willingness to pay a premium price for sustainable hotels, therefore franchised properties can increase their RevPAR by communicating with this growing consumer segment.

Key recommendations for franchisees

1 Pick a franchisor that aligns its brand fully to sustainable operations

A sustainable brand association leads to better sentiment score reviews which is reflected in guest satisfaction and repeated service. Franchisees can make the most of their affiliation with brands by using the resources and expertise developed at corporate level (e.g. marketing, brand standards, software, environmental incentives and staff engagement tools).

How to do this:

- Review the brand standards for sustainability criteria when selecting a franchisor.
- Work with your franchisor's corporate teams to benefit from their sustainability experience and resources.

2 Communicate sustainable practices to consumers

Franchisees depend on a dedicated business-to-business sales force that is usually centrally managed and nationally deployed by the franchisor. As companies consider responsible travelling for the business traveller, sales agents need to be aware of your best sustainable practices and responsible travel programmes when presenting your properties to customers.

- Ensure your sales agents are kept informed of your sustainable practices.
- Review your interactions with customers and stakeholders to evaluate how you are communicating your sustainability goals and actions.
- Use IFC's Marketing Toolkit for guidance on communicating your sustainable practices.

Sustainable Hospitality Alliance

Responsible hospitality for a better world

Further information

Sustainable Hospitality Alliance brings together hospitality companies to address social and environmental challenges and develop practical resources and programmes for the industry. We welcome collaboration with all areas of the hospitality industry including investors, owners and operators.

To download the full report visit:
www.sustainablehospitalityalliance.org/business-case

If you are interested in joining our engaged membership, please contact us:
info@sustainablehospitalityalliance.org