



Business Case for Sustainable Hotels

Recommendations for hotel operators

March 2020



Responsible hospitality for a better world

In collaboration with



Creating Markets, Creating Opportunities

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 2050⁴ 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)



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.



Average daily room rate of hotels in the United States (CHR)

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



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 hotel operators

Background and key arguments

Operators find themselves in a very competitive environment and therefore have a direct interest in promoting sustainability throughout their planning and operations to keep operational costs low, meet guest demand, and protect brand reputation and business continuity. Incorporating sustainable design also relies on clear communication with other stakeholders in the value chain (owners and investors) to ensure that operational efficiencies can be fully realised.

Key recommendations for operators

1 Invest in sustainable solutions for immediate savings

The costs of sustainable practices are lower than perceived, often providing immediate financial savings, or payback periods of less than one year. These implementations will be able to command a higher Gross Operating Profit per Available Room (GOP PAR).



How to do this:

- Use IFC's research on [ROI for green buildings](#) and [Carbon Trust's sector-specific resources](#) to understand the sustainability measures you can implement.
- Use IFC's free [EDGE](#) software to design a sustainable building specifically with your criteria.
- See the American Hotel & Lodging Association's [resources on energy-efficient lighting](#), and US federal guidance on [installing and maintaining green roofs](#) for more solutions.

2 Ensure sustainability is integral in the decision process of all new properties and retrofits

With new properties and retrofits, the earliest stages of development are the most cost-efficient point to incorporate sustainable design. Engaging early with all parties will ensure that properties will be more operationally efficient, more profitable in long-term asset value, and align with your brand's sustainability targets.



- A common challenge for owners and developers is knowing who to talk to in a hotel company about sustainability standards. Assign a contact to be responsible to discuss sustainability at owner level and communicate this to all parties in the development process.
- Train and equip your development teams to consider sustainability from the start of all projects.

3 Measure, report and analyse your resource usage

Evaluate energy and water usage to identify inefficiencies. This will enable you to identify and prioritise the key areas that would benefit from building owner investment to achieve the greatest impact on resource usage and utility savings, and facilitate investment discussions.



- Use Sustainable Hospitality Alliance's research and tools on [climate](#) and [water](#), and [Cornell Hotel Sustainability Benchmarking](#) to identify areas with high impact on usage and cost savings.
- See [Carbon Trust's resources](#) and Sustainable Hospitality Alliance's [Environmental Management for Hotels Manual](#) for recommended actions to improve sustainability.

4 Switch your energy and electric supply to renewable sources

Renewable energy is one of the most efficient ways to quickly decarbonise your properties with little or no cost increase.



How to do this:

- Contact your local energy supplier about available options. [Power Purchase Agreements](#) (PPAs) are currently the most rapidly growing corporate procurement tool.
- Look into local tax credits and incentives using [KPMG Green Tax Index](#).

5 Communicate about your sustainability goals and action

Sharing positive examples that highlight the benefits with business partners, particularly building owners, will encourage further uptake. Effective communication will also increase your chances of winning contracts with corporates that have sustainability procurement criteria, and enable customers to see your sustainability values when making their booking selection.



- 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.

Case study – Caesars Entertainment

Caesars Entertainment is a Las Vegas-based company with facilities spread across seven countries on four continents.

Sustainability measures

In 2003 Caesars established a formal corporate function to make energy efficiency investments and in 2007 the company launched a corporate-wide sustainability programme. Between 2003 and 2010, Caesars invested more than USD 50 million in energy saving initiatives across their portfolio.

Return on investment

Caesars achieved a 163 million kilowatt-hour reduction per year in energy usage, equating to a 2 per cent reduction in electricity use and 5 per cent reduction in greenhouse gases. Their annual water consumption was cut by 200 million gallons by upgrading laundry facilities, offering guests an opt-out linen cleaning options, serving guests water only on request, and by replacing irrigated turf on golf courses with drought-resistant landscaping.

Overall, this investment resulted in more than USD 17 million in annual run-rate savings across 110 projects.



more than
\$50m
invested

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annual run-rate
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5% reduction in
GHG emissions



**Sustainable
Hospitality
Alliance**

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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

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If you are interested in joining our engaged membership, please contact us:

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