Sustainable Hospitality Alliance

Business Case for Sustainable Hotels

Recommendations for hotel owners and developers

March 2020

In collaboration with

IFC International Finance Corporation WORLD BANK GROUP

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 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**

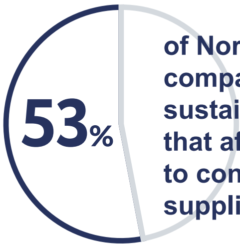
The business case for sustainable hotels

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)



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.

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 owners and developers

Background and key arguments

Sustainability directly impacts the asset value for building owners because investments in efficiency create rapid payback and go straight to the asset's bottom line. This improves both Gross Operating Profit (GOP) for the operator and Net Operating Income (NOI) for the owner.

The environmental performance of buildings is key to:

- overall risk management of the property
- retaining asset value and improving financial performance through low operational costs and increased asset life
- securing access to preferential green finance opportunities
- meeting client demands and regulatory standards
- relationship management with operator brands and protecting their reputation and competitiveness as a business.

Key recommendations for hotel investors and asset managers

1 Integrate sustainability from design phase for best cost efficiency

Appropriate site planning at the development stage offers enormous opportunity to utilise the local environment and climate to maximise resource efficiency, including passive design, building orientation and landscape treatment.

How to do this:

- Use the free EDGE software to evaluate the performance of an existing building or the design of a new building.
- Use reports such as Sustainable Hospitality Alliance's *Destination Water Risk Index* for new and existing developments to better understand the financial implications of local water risk.
- Engage with networks such as Sustainable Hospitality Alliance and Hotel Owners for Tomorrow to learn best practice from peers.

2 Evaluate and enhance your environmental efficiency

Benchmark your portfolio to estimate future energy usage per occupied room and compare potential options for carbon emissions and water-use reduction to determine where to make investments.

- Use tools such as the CHSB Index, the GRESB Portfolio Analysis Tool, or Nearly Zero Energy Hotels e-toolkit to carry out a hotel feasibility study.
- Engage hotel operators using IFC's research on ROI for green buildings.
- Use software such as IFC's EDGE to understand which resource improvements yield the best ROI.

3 Invest in sustainable building certification

Certification will increase asset value and support compliance with regulations. They can also unlock finance and assist in securitising the loan portfolio, as well as enhancing the company's reputation. EDGE, LEED, BREEAM and DGNB are globally recognised schemes.

- Use certifications as guidelines from the planning phase to reach higher environmental and social standards.
- Review existing certifications in your portfolio, and set your own baseline and targets to identify which properties will need certification.

4 Use green financing for new builds and retrofits

Green financing opportunities provide lower interest rates as incentives from commercial banks towards increased sustainability. Owners should also check for local tax deductions and government incentive schemes to benefit from corporate green bonds or green bonds issued by local financial institutions.

How to do this:

- Find local incentives from IFC's information on Green Buildings Banking or contact edge@ifc.org.
- Aggregate projects at portfolio level to increase eligibility for green finance. See UN Principles for Responsible Investment for more information.
- See UN Principles for Responsible Investment for information on raising green bonds.

5 Use sustainable clauses with hotel operators

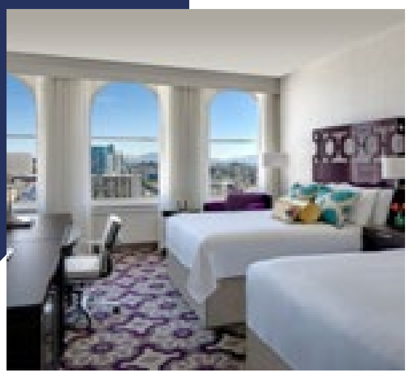
Green leases can help to share the costs and responsibilities of sustainable design between owners and operators and align the financial and energy benefits. These agreements can be legally binding or non-legally binding, providing a framework to operate within sustainable standards, and saving money for operators and owners while increasing property value.

- Use the UK Better Building Partnership's green lease toolkit for guidance to help owners and occupiers work together to reduce environmental impact.
- Take inspiration from the UK Soft Landings scheme to support the transition from construction to occupation, and manage the gap in performance that can occur between the design plans and operation.

Case study – Courtyard by Marriott San Diego Downtown, California, USA

The Courtyard by Marriott San Diego, an adaptive reuse of a former bank, is one of Hersha Hospitality Trust's 48 hotels utilising EarthView®, Hersha's sustainability platform. EarthView initiatives are aligned with eight of the 17 UN Sustainable Development Goals (SDGs).

Since inception, Hersha's hotels have reduced greenhouse gas emissions by 41 per cent per square foot and energy usage by 15 per cent through the implementation of energy efficiency initiatives – translating into over USD 14 million in cumulative savings and EBITDA margin improvement. Including topline impact, the platform has created USD 100 million in value across Hersha's portfolio.



Sustainability measures

Hersha's first laundry water reuse system was installed at the Courtyard San Diego in 2018. The hotel washes over 1 million pounds (lbs) of laundry each year and by utilising a series of filters and ozone treatment it is able to reuse 80 per cent of its laundry water for future laundry cycles.

Return on investment

This system has reduced total hotel water usage by nearly 20 per cent. With annual savings in water and natural gas of USD 25,000 and a net investment of USD 80,000 after incentives, this initiative has a 3.2 year payback period and is being expanded to additional hotels across Hersha's portfolio.

a net investment of **$80k** after incentives

3.2 year payback period

20% reduction in total water usage

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

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