



Business Case for Sustainable Hotels

Executive Summary

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 investors and asset managers

- 1 Include ESG metrics in your investment analysis** > Environmental, social and governance (ESG) metrics enable you to identify the performance of your current and future hotel assets and correlate to a better risk-adjusted ROI in the long term. Since 1990, sustainability-based indexes have provided better long-term returns than traditional indexes.
How? Start with guidance from the [CDC ESG Toolkit for hospitality](#).
- 2 Use the opportunities provided by sustainable finance** > Green investment needs to double to meet the Paris Agreement 2030 targets. Issuances of green bonds are in high demand.
How? Select projects aggregated at portfolio level, which have higher eligibility to receive green finance. See [UN Principles for Responsible Investment](#) for more information.
- 3 Prioritise green incentive schemes** > Prioritise investment in countries and cities with government green incentives supporting owners' and developers' sustainable investments.
How? Use IFC's [review of government incentives in developing markets](#), and cities among [the C40 cities global network](#).
- 4 Prioritise investment in sustainable building** > Sustainable hotels are at least 20 per cent more resource efficient compared to their local market. Investors can develop a well-diversified portfolio of sustainable properties that expands across geographies.
How? Use benchmarking reports such as the [GRESB Real Estate Assessment](#) and [Cornell Hotel Sustainability Benchmarking Index](#) to identify hospitality companies and owners that are committed to improving the sustainability of their portfolio.
- 5 Inspire long-term action** > A building ownership changes through its lifetime. Investors can play a role in setting a sustainable pathway for the property's entire lifecycle.
How? Introduce sustainability criteria and reporting requirements for your assets for the various phases from design to asset sale.

Recommendations for hotel owners and developers

- 1 Integrate sustainability from design phase to find best cost-efficiency** > Most sustainable solutions represent only a 0–10 per cent cost increase.
How? IFC's free software [EDGE](#) evaluates the performance of an existing building or the design of a new building and identifies areas for improvement. Engage with peer networks such as [ITP](#) and [Hotel Owners for Tomorrow](#) to learn best practice.
- 2 Evaluate your environmental efficiency** > Benchmark your portfolio to estimate future energy usage and compare potential options for carbon emissions reduction.
How? Use the [CHSB Index](#), the [GRESB Portfolio Analysis Tool](#), or [Nearly Zero Energy Hotels e-toolkit](#) for hotel feasibility study and engage hotel operators using IFC's research on [ROI for green buildings](#).
- 3 Invest in green building certification** > Certification will increase asset value and support ongoing compliance with social and environmental regulations.
How? Review existing certifications in your portfolio, set your own baseline and targets, and identify which properties need certification. EDGE, LEED, BREEAM and DGNB are globally recognised schemes.

4 Use green financing for new builds and retrofits



Owners can benefit from lower interest rates, or leverage corporate green bonds or green bonds from local financial institutions.
How? Find local incentives from IFC's information on [Green Buildings Banking](#) or contact edge@ifc.org, and see [UN Principles for Responsible Investment](#) for information on issuing green bonds.

5 Use green clauses with hotel operators



Green leases can align the financial and energy benefits and help to share the costs and responsibilities between owners and operators.
How? Use the UK Better Building Partnership's [green lease toolkit](#) or take inspiration from the [UK Soft Landings scheme](#) to solve the gap between building design and operational performance.

Recommendations for hotel operators

1 Invest in sustainable solutions for immediate savings



Sustainable practices costs are lower than perceived, often providing immediate financial savings, or payback periods of less than one year.
How? Use IFC's research on [ROI for green buildings](#) to understand the sustainability measures you can implement and the free [EDGE](#) software to design a green building specifically with your criteria.

2 Mainstream sustainability in new developments and retrofits



The earliest development stages are the most cost-efficient point to incorporate sustainable design to ensure operational efficiency, long-term asset value and alignment with your brand's sustainability targets.
How? Identify and communicate the person responsible to discuss sustainability at owner level. Train and equip your development teams to consider sustainability from the start of projects.

3 Measure, report and analyse your resource usage



Evaluate energy and water usage to identify inefficiencies.
How? Use Sustainable Hospitality Alliance's free tools on [climate](#) and [water](#) and [Cornell's Hotel Sustainability Benchmarking](#) to identify areas with high impact on usage and cost savings to engage with owners. See [Carbon Trust's resources](#) and Sustainable Hospitality Alliance's [Environmental Management for Hotels](#) manual.

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? Contact your local energy supplier about available [Power Purchase Agreements \(PPAs\)](#). Look into local tax credits and incentives using [KPMG Green Tax Index](#).

5 Communicate your sustainability goals and actions



Positive examples will encourage further support from your business partners, particularly building owners, and enables customers to see your sustainability values when making their booking selection.
How? Position your property using IFC's [Marketing Toolkit](#).

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

2 Communicate sustainable practices to consumers



Positive examples will encourage further support from your business partners, particularly building owners, and enables customers to see sustainability values when making their booking selection.
How? Evaluate how you are communicating your sustainability goals and actions with your customers and stakeholders. Use IFC's [Marketing Toolkit](#) for guidance on communicating your sustainability.



**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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