

Business case for sustainable hotels



IN COLLABORATION WITH:



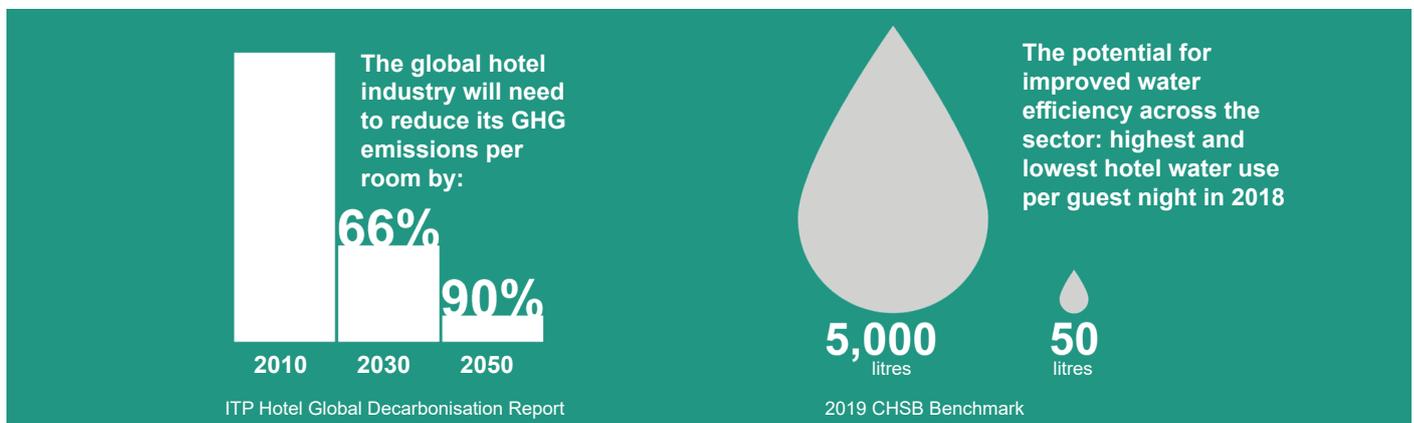
With the Paris Agreement and the UN Sustainable Development Goals (SDGs) outlining the need for governments, industries and people to take action, businesses globally are taking bold steps – and using their influence to drive action in their business partners. Economic growth can no longer come at the cost of an associated rise in greenhouse gas emissions.

The hotel industry has grown almost 20% in the last ten years and, with a global development pipeline of over 2 million new hotel rooms (STR), the industry needs to reduce absolute greenhouse gas emissions per room by 66% from 2010 levels by 2030, and 90% by 2050 to stay in line with the Paris Agreement. This will need to be accomplished through energy efficiency measures, sustainable building design, responsible sourcing, and switching to renewable and low-carbon energy sources.

Through this new research, [International Tourism Partnership \(ITP\)](#) and [International Finance Corporation \(IFC\)](#) provide compelling evidence that collaboration between investors, owners and operators will be the only way to future-proof hotels, achieve maximum benefits and address the scale of the changes required.

“ **We have committed to achieving net zero carbon by 2050 across our real estate portfolio. Acting now to establish the necessary pathways will protect and enhance investment performance for our clients. We call on all stakeholders to collaborate to meet the challenges ahead.** ”

Dan Grandage, Head of ESG, Real Estate
Aberdeen Standard Investments



What is required for progress?



More information about the business case for sustainability: Many investors, owners and brands only see sustainability as a net cost. This research provides a thorough review of the business case for all stakeholders, showing that costs are not as high as perceived, and benefits are both immediate and long-term.



Increased collaboration: Hotel properties are owned and managed by a variety of stakeholders from investors, owners and developers to hotel brands, operators and franchisees. Every stakeholder needs to consider sustainability as integral to long-term asset value, rather than a non-essential addition to operations, and increase efficiencies by working together.



Access to finance: Large corporations and investors are taking bold commitments towards the SDGs and enabling considerable investment opportunities. The labelled green bond market grew to \$389 billion in 2018 (Climate Bonds Initiative); among which diverse investors such as IFC, HSBC, Crédit Agricole CIB and Japan Hotel REIT Investment Corporation already invest millions into sustainability measures for the construction and renovation of hotels.

There is a strong business case for sustainable design to be included in all hotel new builds and retrofits:

1. Boost profit margins through utility savings

A green 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



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 your investment strategy

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 institutional investors (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.



Commercial PV system cost decrease between 2010 and 2018



6. Ensure a long-term energy supply

Most renewable energy sources are now cheaper than fossil fuels (Deloitte, 2019), and investing in hotels' on-site renewable power can increase security and control over supply and costs.



Recommendations for hotel investors

1 Include ESG metrics in your investment analysis



Environmental, social and governance (ESG) metrics enable a review of your current and future hotel assets' performance to better risk-adjust your long-term ROI. Since 1990, sustainability-based indexes (e.g. MSCI KLD 400 Social) have provided better long-term returns than traditional indexes.

How? Start with guidance from the [CDC ESG Toolkit for hospitality](#).

2 Use the opportunities of sustainable finance



Green investment needs to double to meet the Paris Agreement 2030 targets (IFC). Issuances of green bonds are in high demand.

How? Aggregating projects at portfolio level can increase eligibility for 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 the [C40 cities global network](#).



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% 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 in emerging markets. 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 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 and BREEAM 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](#) tool 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 ITP's free tools on [carbon](#) and [water](#), and [Cornell Hotel Sustainability Benchmarking](#) to identify areas with high impact on usage and cost savings to engage with owners. See [Carbon Trust's resources](#) and [ITP'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?** [Power Purchase Agreements \(PPAs\)](#) are currently the most rapidly growing corporate procurement tool (IRENA, 2018). Contact your local energy supplier about available options. 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](#).

Further information

International Tourism Partnership 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.

For further recommendations and the full business case for sustainable hotels or if you are interested in joining our engaged membership, please contact us.

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