1.2 Executive summary

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

This research analyses the business case for sustainable hotels under six categories, and provides recommendations, evidence and actions for each partner in the property value chain.

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.

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 (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.

Average daily room rate of hotels in the United States (CHR)
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 sustainable buildings in your investment strategies
   Sustainable hotels are at least 20 per cent more resource efficient compared to their local market, increasing their long-term resilience to both policy and environmental change. Investors can develop a well-diversified portfolio of sustainable properties that expands across geographies and types of hotels.
   **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.
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](http://greenbuildingsbanking.org) or contact [edge@ifc.org](mailto:edge@ifc.org), and see [UN Principles for Responsible Investment](https://www.unpri.org) for information on issuing green bonds.

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](https://www.ukbbp.org/green-contracts) or take inspiration from the [UK Soft Landings scheme](https://www.uksoftlandings.com) to solve the gap between building design and operational performance.

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**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](http://icf.org/research/roi-green-buildings) to understand the sustainability measures you can implement and the free [EDGE software](https://www.greenbuildingsbanking.org) 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](https://www.greenbuildingsbanking.org) and [water](https://www.greenbuildingsbanking.org), and [Cornell’s Hotel Sustainability Benchmarking](https://www.hospitalitybenchmarks.com) to identify areas with high impact on usage and cost savings to engage with owners. See [Carbon Trust’s resources](https://www.carbontrust.com) and ITP’s [Environmental Management for Hotels](https://www.greenbuildingsbanking.org) 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. Contact your local energy supplier about available options. Look into local tax credits and incentives using [KPMG Green Tax Index](https://www.kpmg.com).

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](https://www.greenbuildingsbanking.org).

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**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](https://www.greenbuildingsbanking.org) for guidance on communicating your sustainability.

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For the full recommendations and sources, see section 4.