4.1 Recommendations for hotel investors and asset managers

**Background and key arguments**

Responsible investment and profit are no longer mutually exclusive. Investors can now expect stable and strong dividends from REITs that invest in sustainable properties because sustainability measures considerably improve risk management and assessment of a portfolio.

The top institutional and private shareholders of some of the largest hotel chains are deeply focused on sustainability; it is a strategy that yields high returns and mitigates future risk.

Research shows that green REITs shares have higher operational and value benefits through:111

- higher cash flows overall (funds from operations and earnings)
- decreased corporate-level expenses (interest), resulting in increased cash flows available for distribution
- trading at a higher relative value (price to net asset value)
- substantially lower volatility experienced than traditional REITs.

**Key recommendations for hotel investors and asset managers**

1. **Include environmental, social and governance (ESG) metrics in your investment analysis**

   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 (MSCI KLD 400 Social) have provided better long-term returns than traditional indexes.112

   **How to do this:**
   - Start with guidance from the [CDC ESG Toolkit for hospitality](#).
   - Develop an ESG and climate strategy using [recommendations from UN Environment](#).114
2 Use the opportunities provided by sustainable finance

According to IFC, green investment needs to double to meet the Paris Agreement 2030 targets. Issuances of green bonds by corporates and non-corporates alike has proven to be in high demand among investors.

How to do this:

• Select projects aggregated at portfolio level, which have higher eligibility to receive green finance.
• See UN Principles for Responsible Investment for more information.\textsuperscript{115}

3 Prioritise green incentive schemes

Prioritise investment in countries and cities with government green incentives and use your lobbying power to convince local and national governments to launch incentives in places where these are not currently offered.

How to do this:

• Visit IFC’s EDGE website to see which governments are offering incentives in developing markets.\textsuperscript{116}
• See the C40 cities global network to identify the cities committed to addressing climate change.\textsuperscript{117}

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. Therefore, investors can develop a well-diversified portfolio of sustainable properties that expands across geographies and types of hotels.

How to do this:

• 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 improve the sustainability of their portfolio.

5 Inspire long-term action

The ownership of a building changes through its lifetime and investors have a unique role in setting a sustainable pathway for the property’s entire lifecycle.

How to do this:

• Introduce sustainability criteria and reporting requirements for your assets for the various phases from design to asset sale.

Case study – BlackRock

BlackRock, the largest asset management company in the world, announced in January 2020 that it would put sustainability at the heart of its investment decisions.\textsuperscript{120} Some of the key principles of the BlackRock Sustainability Mission Statement are:\textsuperscript{121}

• A responsibility to monitor the companies that are part of their portfolio of investments.
• Clients’ interests are protected by engaging portfolio companies through private and public channels.
• As a fiduciary investor, evaluating how companies manage the material sustainability-related risks and opportunities within their businesses.
• An intrinsic relationship between risk-adjusted returns and sustainable practices.

BlackRock is one of the top shareholders for brands such as Marriott International, Hyatt and Hilton and widely communicates its commitment to sustainability.

We believe that companies with sound corporate governance practices, including how they manage the environmental and social aspects of their operations, better mitigate risk over the long term, and offer better risk-adjusted returns.