

The Hotel Yearbook 2023
The Uncertainty New Normal



HYB



Implementing ESG in 2023: Less talk, more action

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Synopsis

The environmental dimension (E) is taking precedence as the hotel industry joins the race to reach net zero carbon emissions. Sustainability programs are evolving quickly as customers and asset owners demand green credentials and make net zero commitments. Despite good intentions, emissions from real estate are at an all-time high and hotels face a greater challenge to reach net zero goals due to their high energy use intensity. Making hotels more energy efficient, switching to renewable energy, and filling a skills gap in teams are important steps to close the gap between intent and action. Consumers and employees want sustainability initiatives to go faster and further, and hotels must also consider the social dimension (S) such as fair pay, labor rights, and diversity, equity, and inclusion. A joined-up ESG strategy provides accountability for driving and managing the strategy, and reporting transparently on outcomes.

Uncertainty and change keep many people awake at night – even in the most comfortable hotel bed. Right now, there's plenty to ponder in the early hours, from the impact of record-high inflation and rising interest rates to supply chain issues. Throw climate change and the growing pressures of complying with incoming regulations around building emissions and a restful night's sleep all but evaporates.

Yet it's not all doom and gloom. While uncertainty and change are disruptive forces, they're also a chance to rethink old ways of working and try out new ideas. And we know the old ways aren't going to cut it in a more sustainable, inclusive world – a world that consumers and employees increasingly want to see businesses play a lead role in shaping.

Leading hotels and brands are responding by creating and using ESG frameworks as a lens through which to assess risks and opportunities as they aim to reduce their carbon footprint and build the resilience they need to thrive in the coming years.

Understandably, the E – the environmental dimension – has taken precedence, as the hotel sector joins the race to net zero.

Phrases like green premiums, brown discounts and green finance are featuring more strongly in business conversations. Whilst there is insufficient transactional evidence of brown discounts on account of sustainability considerations, this is because sustainability is often one consideration amongst others in deal discussions. However, it is certainly considered to be key for liquidity from the perspective of both lenders and investors.

For hotel brands, sustainability programs are evolving quickly as customers increasingly say green credentials matter. But it is not just customers but asset owners who are making net zero carbon commitments and taking steps to implement strategies to achieve them, outdated brand standards require revision to consider what we need to do to make our hotels more resilient, efficient and sustainable.

TIME FOR ACTION

Despite all the good intentions, emissions from real estate are at an all-time high: JLL's Decarbonising Cities and Real Estate report published in 2022 showed that buildings account for 60% of carbon emissions in cities and as high as 78% in highly service oriented cities such as London. Hotels, like all buildings, need to 'walk the talk' to close the gap between intent and action; and due to their operational nature, they face an even greater challenge to achieve net zero goals since their Energy Use Intensity is significantly higher than offices, for example. More and more operators and asset owners are engaging to conduct gap analyses of their portfolios and now consider sustainability-related due diligence to be a key component of investment committee decision making.

Some of the measures needed to create a low carbon future will help relieve some of the uncertainty currently facing businesses. Making hotels more energy efficient will help manage rising energy costs. Smart meters can assess energy performance across hotels and identify areas for efficiencies. Advanced building management systems can adapt to peak and non-peak energy usage to reduce unnecessary energy consumption.

Hotel owners have seen utility costs soar, so the link between energy efficiency and value has become a prominent focus area. Switching to renewable energy by installing it onsite or procuring it offsite can provide energy security and support ongoing progress towards net zero goals. The payback from implementing solar panels can be as little as two years, but the benefit can be restricted by the roof space available to install such technology, particularly for city hotels.

This is the technical side; there's also the people side. Consumers and employees say they want sustainability initiatives to go faster and further, yet they also have a role to play in making it happen. Large-scale behaviour change is needed that goes beyond reusing towels. Hotels must also fill a skills gap in their teams and educate them on the importance of sustainability. Will consumers pay more to stay in a more sustainable hotel? It is not clear but what does seem clear is that hotel occupancy is likely to be higher., according to JLL's research. This applies to the S – the social – as well as the E.

Indeed, the social side is increasingly in the spotlight. For employees this means fair pay, labour rights, health and wellbeing, and diversity, equity and inclusion. For communities, it extends further to sustainable procurement, healthy spaces, and inclusive places.

THINKING HOLISTICALLY ABOUT SUSTAINABILITY

Despite ambitions being strong, hotels often approach the E and the S in narrow and fragmented ways. Instead, they should have a joined-up ESG strategy. Organisations such as the Energy and Environment Alliance (EEA) of which JLL is a strategic partner have become a key driving force in bringing asset owners, owners, brands, operators and advisors together to propel the concrete action needed.

Environmental and social efforts are intrinsically linked and require a coordinated approach underpinned by effective governance - the G of ESG. Done properly, it provides accountability for driving and managing the strategy, and reporting transparently on outcomes.

What's more, successful ESG strategies mean accounting for *differences*: not all hotels are equal. Location matters. Asset class matters. Service levels matter. Different locations have different local communities and different social challenges. Data shows that a city hotel can be less carbon intensive than a resort hotel. A modern limited-service hotel can be five times more efficient than upscale or luxury hotels.

These varying characteristics on the E side make hotel benchmarking complex. The Technical Committee of the EEA has established a global initiative with certification experts BREEAM to help with the benchmarking of hotels based on energy consumption, which will help asset owners in a similar way to STR for performance benchmarking.

Investors are starting to price in sustainability transition risk, which we are starting to see in hotels as well. Retrofitting hotel buildings will be essential, albeit not as straight forward to justify if there are limits to the existing building. For example, if it has heritage status. Investors must pinpoint where assets sit on the net zero carbon pathway and establish what the impact of increasing regulation will be. But there needs to be more transparency on subsidies and benefits to help incentivise cash constrained hoteliers.

Hotels have been buoyed by the sharp recovery in performance in 2022, but staffing and inflationary challenges continue to prevail. What is clear though is that as investor engagement and regulations step up, sustainability will continue to rise in importance as a liquidity and pricing consideration.



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