

The Hotel Yearbook 2023
The Uncertainty New Normal



HYB



The Rising Importance of Sustainability in Hotel Valuation - In 2023 and Beyond

Alan Jutte

VP & Appraisal Leader, CBRE

Synopsis

In this article, CBRE's Alan Jutte provides insights on a study of hotel operating statements from CBRE's Trends in the Hotel Industry which showed that new properties with energy-efficient features resulted in substantial energy savings compared to older or less efficient properties. The study concluded that while sustainability efforts can lead to reduced costs, the extent of these savings may depend on various factors such as room size, building size, amenities, building materials, etc.

Sustainability is an increasingly crucial component across almost all industries. Embracing new and more efficient business models and technologies is expensive, and often developers and operators will not embrace them unless it results in a sufficient return. Indeed, developers may not have a choice as government officials have mandated increasingly stringent standards for any type of new development. These include anything from high efficiency toilets, guestroom automation systems, solar panels, and lighting control status systems.

Many cities across the country have already approved a natural gas ban in effort to lower emissions, forcing developers to consider other options. Government incentives will also play a role in sustainability, especially with the recent passage of the Inflation Reduction Act. The legislation includes billions of dollars in grants and loans to spur the development of clean energy technologies. Other measures are not as difficult to implement. One silver lining of the pandemic is daily maid service is not offered nearly as much as pre-pandemic. Guests often prefer hotel employees not enter their room to clean anyway, and can simply call the front desk when extra towels are needed. This has resulted in significant lower operational costs as the washers and dryers are not operating nearly as long.

Still, the major question regarding sustainability, as it relates to hotels, (as in other industries) is how much will the effort reduce costs? To answer the question, we examined several operating statements of similar hotel properties to determine how many savings are achieved. The hotel operating statements were taken from CBRE's proprietary *Trends® in the Hotel Industry*. The task was somewhat challenging as our analysis focused on new lodging properties with energy efficient construction standards (including LEED certification) compared to similarly sized properties that are older and/or were not constructed with high energy/LEED standards. To be sure, there are many other differences between the properties that effect energy use, including room size, building size, amenities, building materials, etc.

Our first comparison focused on several select services hotels in the same municipality, all with a similar room count and occupancy. An approximate 150-unit hotel in a downtown urban location was constructed in 2018 with a number of sustainability features, the most notable being a variable refrigerant flow heating and cooling system (VRF) and solar panels. VRF systems only work at the needed rate allowing for substantial energy savings. In conjunction with the solar panels, the result was a significant reduction in utility costs (\$3.40 per occupied room for the year).

Compared to other hotels in the same market that had through wall PTAC units and no solar, the difference in utility costs was more than double. A similarly sized hotel (constructed in the mid 1990's) had a utility expense over \$4.00 more per occupied room. At 50,000 occupied rooms, this resulted in savings of over \$200,000 just for the year compared to this hotel. Again, the savings extended beyond solar panels and an efficient VRF system. The age disparity is certainly notable and the most obvious difference as the building materials and construction methods have improved since this hotel was originally constructed. As such, a comparison was made with another hotel of similar age (constructed in 2016).

This hotel was constructed with high quality materials but does not have any unique energy efficient features (such as solar panels or VRF). This property's utility costs were lower than the older hotel (\$5.20 per occupied room), but still higher than the property with VRF and solar. Below is a table illustrating the difference between the properties.

SUSTAINABILITY - SAVINGS ANALYSIS	Utility Cost Per Room	Annual savings for Hotel A based on 50,000 occupied room nights
Property		
Hotel A (the hotel has solar and VRF)	\$ 3.40	\$205,000 relative to Hotel B and \$90,000 compared to Hotel C
Hotel B (older hotel without solar or VRF)	\$ 7.50	
Hotel C (newer hotel without solar or VRF)	\$ 5.20	

Course: CBRE

As illustrated, the savings for Hotel A relative to hotels B and C hotel are significant, especially compared to the older property.

The question still remains, however. Is \$90,000 in annual savings (in this lone example) sufficient enough to justify adding the green technologies? In conversations with developers, the answer to this question is it depends. VRF systems (or other types of central air systems) are very quiet and demanded by guests (compared to much noisier but cheaper PTAC units), especially in high rated markets.

Who wants to spend \$300 or more on a hotel room only to be awakened at night due to noisy PTAC units? In a low rated market, on the other hand, it simply doesn't make economic sense to install central air. As for solar panels, most guests are likely unaware of such a component, and therefore have very little input. In this case, the question is often just a cost benefit analysis.

As noted previously, however, future incentives may be enough to entice developers to include solar panels in future developments. Legislation such as the Inflation Reduction Act offers substantial credits (up to 30 percent of the total cost) to install green technologies. Government financing packages that offer low rates for installing energy efficient systems are also attractive for developers who redevelop/rehabilitate older/historic structures.

We have also compared LEED certified hotels to non-certified properties. The analysis becomes somewhat muddled, as the overall operations of one property can vary significantly to another. In this case, we compared the utility expense of two new hotels (both constructed in the last five years).

Both hotels ranged in size from 300 to 350 units and had a substantial amount of meeting space. The LEED certified building actually had a higher utility cost on a per occupied room basis (\$8.05 per occupied room for the LEED certified building compared to \$7.34 per occupied room for the non-certified building). Upon closer examination, however, the LEED certified property had over *three* times the amount of food and beverage revenue relative to the non-certified hotel. If the non-certified property had the same amount of revenue, its utility expense would certainly be much higher than \$7.34 per occupied room, and likely much higher than the LEED property.

Given the foregoing, it is clear that green technologies result in significant operational savings. Over time, developers will be forced to adopt environmentally friendly systems as government mandates will continue to evolve (and become more stringent over time). Still, will developers add additional green energy systems beyond those mandated by public authorities? If guests demand it, and/or the cost-benefit is favorable, the answer is likely yes.

■

Alan Jutte — VP & Appraisal Leader, CBRE

Mr. Jutte joined CBRE in January 2006 as Senior Real Estate Analyst of the Pacific Northwest Region. Prior to CBRE, Mr. Jutte joined Cushman & Wakefield, Inc. in 1998 as an Appraiser in the Washington State Region-Appraisal Division. Mr. Jutte's appraisal and consulting assignments have included vacant land, air rights, office buildings, shopping centers, industrial complexes, commercial properties, universities, residential properties, hotels, resort properties/golf courses, utilities and investment properties throughout the United States. He has performed valuations of proposed, partially completed, renovated and existing structures. He has been qualified as an expert witness in front of public facilities districts, and has been extensively involved in bankruptcy litigation and equity cases. He has acted as a guest speaker before hospitality and other organizations throughout the United States. Mr. Jutte is also a member of CBRE's Hospitality and Gaming Group, and has appraised all types of hotels including extended stay, full service, limited service, resort destination, and conference centers. Mr. Jutte has appraised lodging facilities all across the United States including Hawaii, Alaska, California, Oregon, Arizona, Washington, Nevada, Alabama, and Georgia. Mr. Jutte has also appraised lodging facilities in Mexico and Canada.

CBRE Hotels — pip.cbrehotels.com

CBRE Hotels is a specialized advisory group within CBRE providing brokerage, valuation, consulting, research and capital markets services to companies in the hotel sector. CBRE Hotels is comprised of over 375 dedicated hospitality professionals located in 60 offices across the globe.



BirchStreet Pay Solution

Tired of writing checks? Worried about rampant check or credit card fraud? Want someone else to handle all of your supplier payments for you?

BirchStreet Pay is the smarter way to pay.

**Built to simplify
and centralize**

**Elevate compliance
to new heights**

80%+
reduction in
payment costs

\$5,000+
overall savings
from compliance
improvements

40%
reduction in
paper checks

100%
of your payments
handled by
BirchStreet Pay

Email sales@birchstreet.net or visit birchstreetsystems.com