



Properties made for precision

The day-to-day nature of hotel management gives the asset class greater potential for measuring sustainability initiatives than its peers, writes **Ronald Stephen Barrott**, CEO and chairman of Pro-invest Group

Australia has been one of the early adopters that sought to comply with environment, social and governance best practices through the implementation of a Green Star ratings system, which – similar to the LEED system in the US – assists in the measuring of a building’s ‘green design.’ In addition, the NABERS (National Australian Built Environment Rating System) rating was introduced more than a decade ago to measure the actual environmental ‘performance’ of assets by measuring consumption in areas such as energy and water or production of waste in comparison with peers to monitor and benchmark an assets environmental footprint.



Barrott: active asset management good for hitting ESG targets

NABERS comprises a collection of separate tools, each of which calculates and rates the performance of an existing building, or part of one, on a particular environmental indicator at a certain point in time based on retrospective

consumption. Thus, it differs crucially from Green Star, which rates design rather than actual consumption. NABERS tools have been developed for offices, hotels, residential and retail buildings, and for each building type, the following environmental areas of concern can be rated separately: energy, water, indoor environment and waste.

Although NABERS tools have been developed for all real estate asset classes – so far – the NABERS rating has been most widely adopted by office and residential developers with some exceptions in the hospitality and retail space. This is partly because more passive asset classes – those that do not require day-to-day management – are arguably easier to monitor when it comes to following ESG best practice. Hotels, conversely, do require such active management.

However, the active management the hotel asset class requires also offers the opportunity to not only develop an asset in accordance with highest ESG standards, but also make sure that the desired environmental impact is achieved through proper day-to-day management post opening. Additionally, it provides for the possibility to constantly

Pro-invest Group

Pro-invest Group is an international private real estate firm focusing on the development and operations of select service hotels. In Australasia, our development portfolio is in excess of over A\$1.5 billion (\$1.19 billion; €1 billion). We are a GRESB member and all our hotels assets follow the highest ESG standards proven by their NABERS ratings.

monitor and introduce best practice ESG standards as this area evolves, combined with a variety of operational monitors that can be put in place in order to respond to calls for improvement. This level of flexibility and responsiveness should make the hotel asset class more prone to being an early adopter of the latest environmental standards.

NABERS ratings provide a simple indication of the overall environmental footprint of a hotel and offer the asset class the chance for progress to be marked relatively.

Hospitality's added value

Many hotel owners are taking steps to improve their sustainability outcomes and having a rating systems such as NABERS enables environmentally responsible owners to monitor their consumption. It also allows them to communicate and benchmark standards of environmental performance in protecting and conserving the environment, and provide real evidence of their commitment to sustainability and socially responsible practices.

It is increasingly accepted that 'being green' goes directly to the bottom line of a business. But green hotels not only see higher operational returns coming back to their shareholders than other forms of real estate. They also tend to command higher sale prices due to improved value based on lower utility expenses and overall healthier aspects which increasingly consumers consider when booking a hotel as they proactively try and reduce their carbon footprint.

Leading global hotel brand owners and operators, such as Intercontinental Hotels Group, have long understood the importance of setting ESG best practice standards. IHG introduced its own 'Green engage system' to implement ESG standards throughout all its estates. Green Engage is an innovative online sustainability system designed to assist hotels monitor, reduce and manage waste, water and energy consumption by providing them with tools and recommendations that support the creation of environmental action plans. Green Engage hotels are rated on a scale of one to four, with ratings being assessed through a third-party quality assurance process administered by consultancy

Deloitte. According to IHG, Green Engage can help hotels save up to 25 percent in energy use.

In addition to hotel users thinking more about their carbon footprints, business intermediaries have begun to focus on assisting the end consumer make a more conscious decision around their carbon footprint when selecting which hotel to stay in; a good example is hotel advice service TripAdvisor's GreenLeaders' list, which actively filters out all hotel assets complying to some level of ESG standards. In particular, for millennials 'being sustainable' becomes a pre-request for them to select a hotel. From the owner's perspective, by introducing higher sustainability practices it can enhance investments via yield-accretive ESG initiatives and mitigates resource price volatility on its fund returns by reducing consumption. As iterated earlier, an integrated ESG approach can improve the top-line performance of a hotel by appealing to guest preference. But it also aids in the retention of high caliber staff. All of these factors combined are likely to result in a higher price on exit of the asset.

Improving your rating

There are many different operational approaches that vary in sophistication that can be undertaken to improve a NABERS rating: simple steps such as providing guests with the option and rewards for reusing bed linen and bathroom towels, for example. This can result in significant savings



Best practice: Pro-invest, with IHG, which owns the Holiday Inn Express brand, understands the importance of setting ESG standards

in multiple areas, such as laundry, cleaning and resource consumption.

Further examples of measures to save energy that are easily implementable include the introduction of dimmable LED lighting linked to an energy management system (EMS), often triggered by a guest's card system or motion sensor. Use of energy is not consumed in the room when guests are not present. Other initiatives include high energy efficiency chillers and air conditioning systems that allow guest room and public area isolation – again linked to a good EMS.

Measurements to improve water consumption can include the introduction of low-flow toilets or shower heads, or the installation of WELS (Water Efficiency Labelling and Standards) rated taps and fittings.

Further, waste hauling in hotels can be lowered drastically through recycling, avoiding wastefully-packaged products or requiring vendors to pick up their packing material after delivery.

There are benefits to implementing ESG requirements into the development of a new hotel assets too. Sustainable development initiatives, including high-energy efficiency chiller systems, photovoltaic cells, enhanced Low E window glazing, reduced lighting power density and regenerative lift drive systems to high-rise lifts.

Similar to the previously mentioned initiatives, these allow for a significant reduction in energy consumption and will consequently reduce the ongoing energy expense for operating assets, resulting in increased distributions and higher expected sale proceeds.

In a country such as Australia, where energy costs have been rising significantly, achieving reduced energy consumption is no longer a 'nice to have' but a necessity asset managers are confronted with. Critically, they also assist in de-risking the market's exposure to volatility in energy prices.

Part of the picture

Hotels have become an established asset class, trending in line with other core sectors. Provided they are skilfully acquired and actively managed, investments in the sector can generate attractive yields – an indeed – outperform CBD office building investments on a risk-adjusted returns basis. Hotels have proven to be an attractive investment, demonstrating double-digit cash-on-cash yields to investors, particularly when developed, resulting in more and more institutional investors looking for access to this asset class.

Keeping this in mind, although green building rating tools can be very effective in encouraging the spread of more environmentally friendly buildings – and hotel owners are starting to see the operational benefit – they are just part of the picture.

In Australia, the government has started to implement measurements including lower levels of council taxation applicable to buildings with a higher NABERS rating and the introduction of lower withholding taxes where the underlying assets of a managed investment trust achieve a 5.5 NABERS rating or above. For office buildings, the government even makes it a requirement for a building to achieve a five-star NABERS rating before any governmental body can become a long-term tenant.

Similar criteria could be used in determining which hotel assets government employees stay at in order to encourage a faster adaption of higher NABERS ratings throughout hotel assets. Additional government policy should envision guidelines around the hotels investment allocation of pensions or insurance companies.

Although the financial performance of an investment remains the priority, the GRESB or NABERS rating a company is achieving should form part of a manager's due diligence. Setting a fixed quota on money to be invested with firms following the highest ESG standards can be a difficult and somewhat misleading exercise. Therefore, governmental funds, pensions, superannuation funds, and other investors, should be ranked not only by their returns, but also by how much of their funding goes into investments following higher ESG standards. Only if all stakeholders come together, the necessary outcome can be achieved for the environment. □

Everybody needs good NABERS

A NABERS energy rating reflects the actual energy consumption of a building over the past year in four distinct areas

1. Energy – measures the amount of each type of energy (electricity, gas, coal, oil, etc) consumed on the premises in a year, and how much of it is supplied from 'Green Power' (renewable energy that can be purchased from electricity retailers in respect of electricity and gas use);
2. Water – measures the amount of water used on the premises in a year, and how much of this is externally-supplied recycled water;
3. Indoor Environment – requires sub-ratings of the premises in the areas of thermal comfort, air quality, acoustic comfort, lighting and office layout;
4. Waste – a relatively new addition to the suite of tools that measures the total materials used (such as paper) per person per day, and the amount of those materials that are recycled or reused.