

A photograph of a modern building facade. The upper part features a glass curtain wall with a geometric pattern. Below it is a section with horizontal wooden slats. The main part of the image shows a large, white, perforated metal screen with a repeating geometric pattern. Below the screen is a lush green wall of hanging plants. The building is set against a clear blue sky.

# ESG AND THE FUTURE OF HOSPITALITY

Part 1

ESG and the Future of Hospitality is a three-part series that explores CallisonRTKL's views on the role of Environmental, Social, and Governance (ESG) in hospitality, and how sustainable design solutions can lead the way to reduced first costs and operating costs, increased revenue and ROI, and satisfied stakeholders including staff and visitors.

While addressing the world leaders at COP27 in November of 2022, Secretary General of the UN António Guterres summarized the state of our planet bluntly, "Humanity has a choice: cooperate or perish." The increasing pressure on business leaders to respond to global challenges such as the climate emergency and social inequities, has had a dramatic effect on the investment landscape. Umbrellaed under Environmental, Social, and Governance (ESG), the perspective has transitioned from an unnecessary 'do good, look good' approach to a key investment benchmark.

ESG is a fundamental engine of growth, and the impression that it's not a factor for investors is cause for getting left behind. According to [PwC's Asset and Wealth Management Revolution 2022 report](#), nine of ten investors believe that incorporating ESG into their investment strategy will improve overall returns, and 60% of investors reported that ESG investing has already resulted in higher performance yields than non-ESG equivalents.



Virgin Hotels New Orleans  
New Orleans, Louisiana

**9 OF 10**  
INVESTORS



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ESG can benefit everyone in the diverse set of hotel stakeholders, from developers to operators and guests. The misconception that ESG means higher costs and minimal reward—therefore misaligning with stakeholder priorities—is deceiving. The reality is that putting people and the planet first doesn't have to be expensive and failing to act now is likely to cost the hotel sector more in the short and long-term future.

# WHY ESG MATTERS

## Cosmetic Changes Aren't Enough

With the proliferation of global climate agreements, science-backed initiatives, and the fact that [the construction industry accounts for 40% of the world's carbon emissions](#), minimal carbon cuts are no longer enough to make a case for ESG. Substantial ESG metrics are now a requirement for investors who are privy to the greenwashing veil. Cutting corners won't help anyone in the process, and the benefits of creating a truly sustainable project are clear. [According to the USGBC](#), sustainable properties see a 10% or greater increase in property value and 20% lower maintenance costs than typical commercial properties.

  
**10%**  
INCREASE

of property value for sustainable properties

**20%**  
LOWER  


maintenance costs than typical commercial properties

## Environmentally Unconscious Hotels Become Stranded Assets

The understanding of risk has shifted to focus on operations and long-term sustainability. Over time, a building that is not a net-zero carbon emitter is a liability as both carbon taxes and energy costs rise. By choosing not to respond to global efforts to be net-zero by 2050, [a 5-star hotel could lose value worth up to \\$230,000 per key](#). Building owners who are slow to ensure their properties are operationally efficient will be left with stranded assets, which will plummet in value over time making them increasingly difficult to sell.

## Energy Costs Are Skyrocketing Around the World

The global energy crisis is only getting worse. Goldman Sachs [finds](#) that by 2023, a typical family in the EU could face energy bills of €500 per month, USD \$519—up 200% from 2021. In their global summary, the International Energy Agency [reports](#) that power shortages have caused rolling blackouts across Asia, and in some cases energy-intensive industries have been directed to cut production. In response and anticipation of the ongoing crisis, the Sustainable Hotel Alliance recommends a sustainable building, which is at least 20% more resource efficient, significantly reduces utility costs over time, and raises NOI and property value. Although there are upfront costs for sustainable upgrades, those will be paid back in utility savings within one year for a new build and one-to-ten years for a retrofit.



**20%  
MORE  
EFFICIENT**

Sustainable Hotel Alliance recommends a sustainable building because it significantly reduces utility costs over time, and raises NOI and property value



## Hotels Risk Losing Guests with Sustainability Expectations

It's not only investors who are tracking hotels' progress. As guests are making travel arrangements, they are using platforms that list the sustainability rating of an accommodation by analyzing its carbon footprint and net zero plans. [In a recent study conducted by MMGY Global](#), 32% of guests said they would pay 10% higher rates for a sustainable stay. Additionally, Booking.com [reports](#) that travelers want to make more effort in the next year to travel more sustainably. The challenge is that many guests don't exactly know what sustainable accommodation means. Part of an effective approach to ESG is communication, which first requires a systematic approach to designing, measuring, and tracking impact.



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OF GUESTS

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## Ignoring Social Causes Will Alienate Employees, Guests, and Local Communities

Hotels can no longer stay silent on social issues. According to JLL, hotels across the industry are implementing social agendas in response to pressure from employees and guests for inclusive and just travel. Nearly half of hotel guests now are between the ages of 18 to 35, increasing the prevalence of conscious consumerism and expectations for hotels to adopt an ethical framework. Alongside travel trends like wellness stays, there's



**58%**  
OF TRAVELERS

want their trip to benefit  
the local economy.

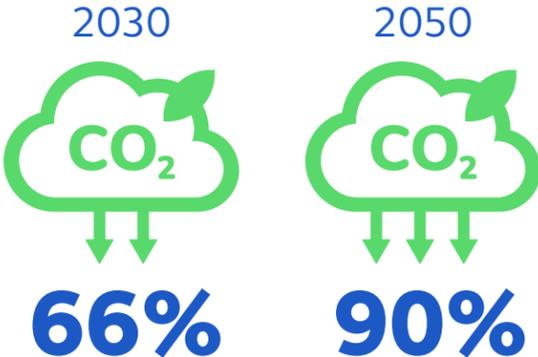
a rising popularity in trips which allow people to give back during their stay, like cleaning up a local beach. [A recent study](#) found that 58% of travelers want their trip to benefit the local economy. This offers the opportunity for partnerships with the local community, ultimately attracting guests and inviting people in the surrounding area to feel that they are part of the life of the hotel.

# TACKLING ESG ISSUES WITH DESIGN

COP27, the largest annual gathering on climate action, which took place in November 2022, aims to bring together the world’s leaders to tackle urgent issues like the energy crisis and rising greenhouse gas emissions. This moment is also a unique opportunity for the world to acknowledge the lack of progress that has been made since COP26. The built environment continues to be a significant culprit in the climate crisis. A major part of the solution—and an effective ESG formula—lies within the buildings themselves.

The hotel sector is a major driver of the tourism industry’s employment and revenue, and also the most energy intensive, accounting for 2% of the 5% of global CO2 emissions for the sector. According to the Sustainable Hospitality Alliance, the hotel sector needs to reduce its carbon emissions by 66% per room by 2030 and 90% per room by 2050 to ensure that the industry’s continued growth doesn’t result in increased carbon emissions. The hospitality industry is one part of broader, global efforts to reduce emissions. Failure to do so will, as António Guterres anticipates, result in climate breakdown and worldwide catastrophe.

Hotels to reduce carbon emissions to ensure industry’s continued growth doesn’t result in increased carbon emissions



The challenges hotels face to stay relevant amidst the transition to a greener and more just future can be addressed with sustainable design solutions, which allow environmental and social strategies to work hand-in-hand. Harder to measure social impacts can be enmeshed with environmental standards for a comprehensive ESG approach with holistic value. In short, these shifting expectations are much more than a trend. ESG is the future.

In Part 2 of this series, we will discuss trends in hotel transaction volume and new developments, how private equity firms are changing the hotel sector, and methods for building valuation.



Marriott Fort Lauderdale Airport  
Dania Beach, Florida



## Clay Markham

*Principal | AIA, LEED AP BD+C*

Clay leads the hospitality sector with a dynamic design and management approach to architecture, interior design and construction management. With over 40 years in the industry, Clay has worked extensively on international and domestic projects, allowing him to apply diverse market experiences to a variety of project types from single-use environments to large-scale master plans to mixed-use projects. His compelling designs and successful project delivery skills have resulted in award-winning projects for individual developers and owners as well as top-tier brands including Marriott International, Hyatt Hotels and Resorts, and InterContinental Hotel Group.



## Todd Lundgren

*Principal | AIA, LEED AP*

Todd is an Director with CRTKL, leader of the firm's regional Commercial Practice Group for Europe and the UK. Having relocated to the London office in August 2011, Todd will build on over three decades of experience as a recognized expert in the planning and design of mixed-use and hospitality driven environments and developments. His extensive worldwide experience from Asia, to Europe and the Middle East, Latin America and North America, covers the full spectrum of hotel brands and includes convention hotels, boutique resorts, extensive property repositioning, renovations and master planning as well as multiple significant mixed-use projects.



## Pablo La Roche

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Leading CRTKL's Performance-Driven Design<sup>SM</sup> initiatives, Pablo is a recognized leader in green design. His expansive portfolio includes sustainable buildings all over the world designed with state-of-the-art tools and green strategies. Pablo is a tenured professor of Architecture at Cal Poly Pomona University. He has been published more than 130 times, including notably Carbon Neutral Architectural Design by CRC Press currently with a second edition published in July of 2017.

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