



June 2022

Hotels and Hospitality

Sustainable hotels

Setting the scene in Asia Pacific

Introduction

The pandemic has changed consumer expectations and has enhanced consciousness around the importance of Environmental, Social, Governance (ESG) values. The preservation of the environment through concrete sustainable measures is increasingly on top of mind, especially when it comes to tourism and hospitality. Booking.com has reported that more than 80% of global travellers intend to stay at sustainable accommodation at least once in the upcoming year¹. More specifically, 61% of the respondents would be more likely to choose accommodation if it has implemented sustainability practices.

As a result, hotel owners and operators in the world are now adapting their business strategies to include ESG factors, as the hotel sector accounts for 1% of global carbon emissions according to the UNWTO.

Indeed, hotels are the most intensive consumers of energy and water when compared to other real estate classes, as highlighted by the Urban Land Institute (ULI) in its Hotel Sustainability Report 2019.

While Europe is leading the way to implementing sustainability in hotel real estate, the United States are following the steps by requiring disclosure of sustainability metrics as part of the Uniform System of Accounts for the Lodging Industry (USALI) as early as beginning 2024. Where does Asia Pacific stand in this race to sustainable hotels and how do owners and operators perceive sustainability in the region?



¹Sustainable Travel Report 2021, Booking.com

Asia Pacific lagging behind amid a boulevard of opportunities

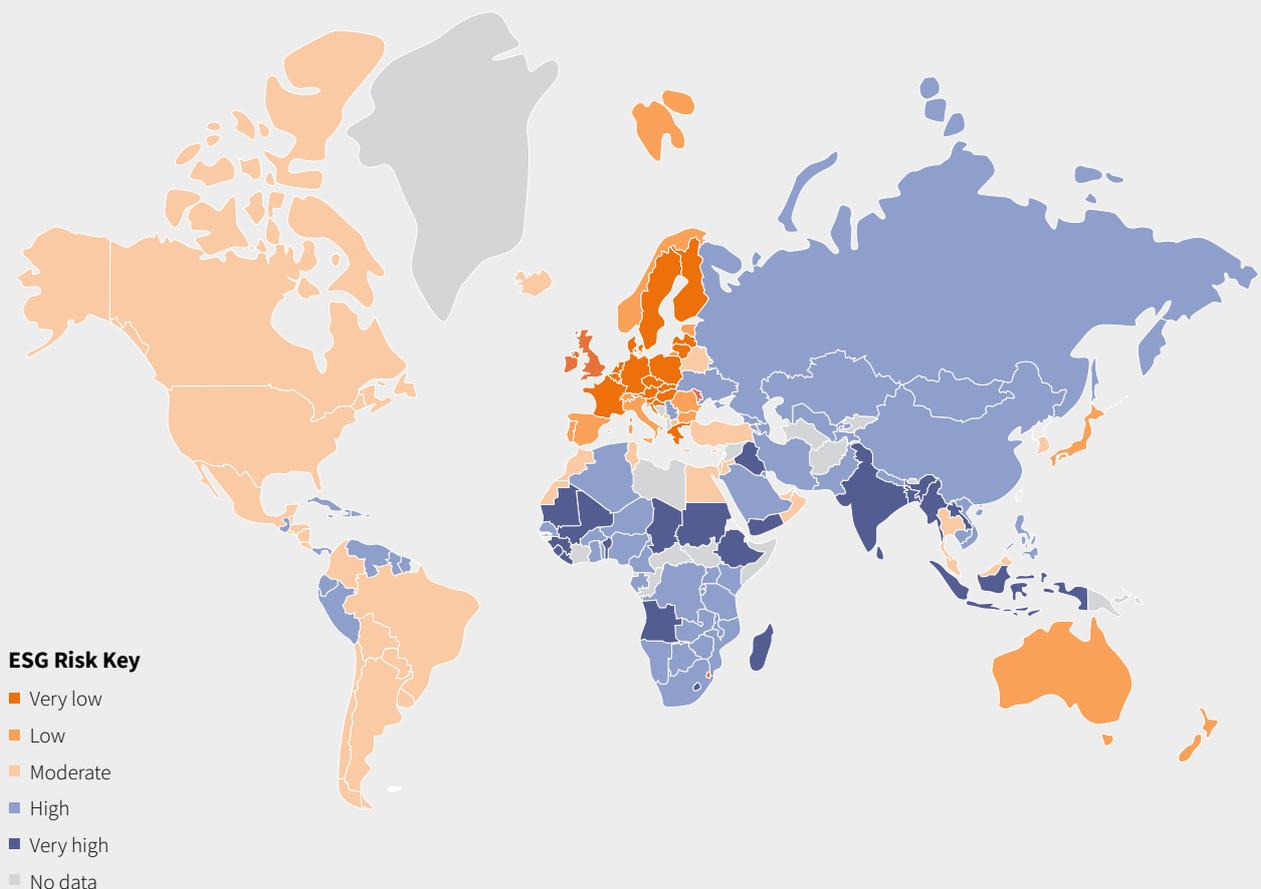
In its latest report on ESG, the Economist Intelligence Unit has ranked countries according to the impact of governments, society and business on sustainability. It appears that Asia Pacific – especially Asia – is lagging behind Europe and North America, on the overall ESG concept and specifically on the environmental aspect.

EIU's ESG Ratings – focus on Environmental

EIU's ESG ratings assesses governments, society and businesses impact a country's sustainability.

ESG category

Environmental

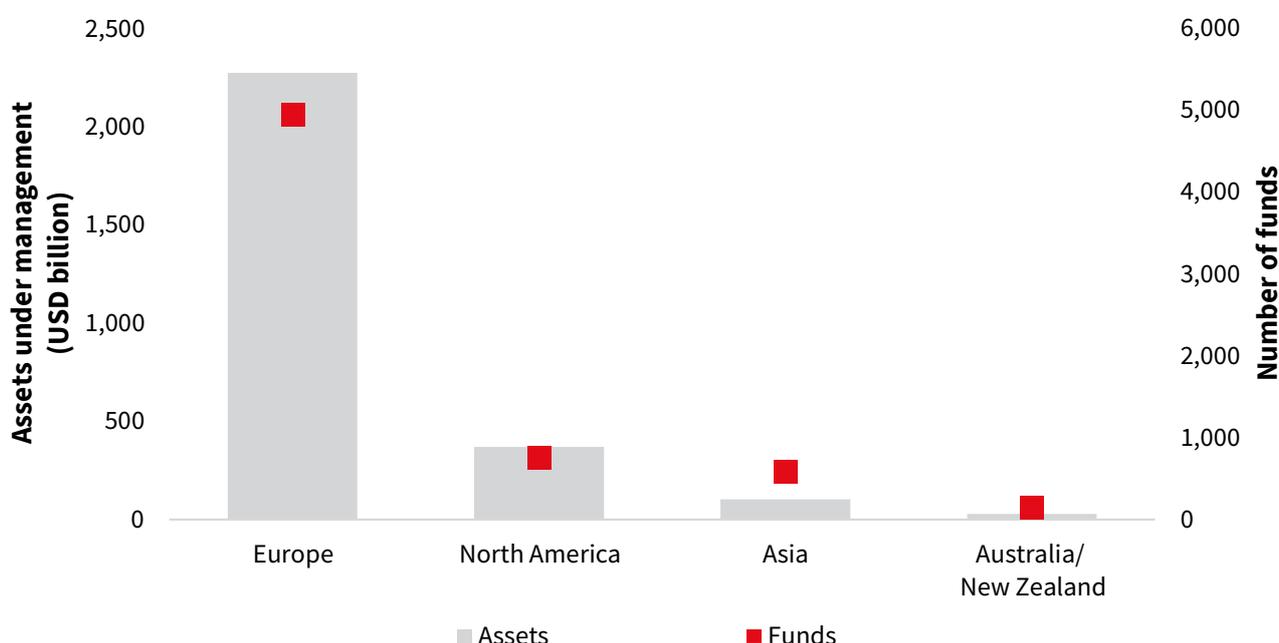


Source: EIU – Data as of 31 March 2022

As highlighted in the JLL report [‘ESG at the heart of hotel strategies’](#), not only is the hotel sector the biggest consumer of energy and water among all real estate classes, but emissions from hotels also vary by geography with hotels in Asia Pacific producing more emissions per occupied room – due to the climate and the greater need for air conditioning – when compared to hotels in Europe or in the Americas. Additionally, full-service hotels and resorts typically produce more carbon emissions compared to limited-service hotels².

Following the signing of the Glasgow Climate Pact and by agreeing to the Paris Rulebook by COP26 in November 2021, the sustainable Hospitality Alliance reported that hotels in the world need to reduce carbon emissions by 66% per room by 2030 and by 90% per room by 2050. This commitment has accelerated the launch of sustainable funds globally. According to Morningstar Direct data, the number of sustainable funds worldwide reached 6,452 at the end of the first quarter of 2022, a notable increase of 9% from 5,932 funds at the end of 2021, and a jump of 21% in the past six months.

Global sustainable funds in Q1 2022



Source: Morningstar Direct – Data as of March 2022

Europe continued to contribute to most of the global number, but other regions have also expanded. Asia Pacific (including Australia/New Zealand) comes behind at the third place in terms of sustainable fund assets, representing only 5% of the global number as at YTD March 2022. However, the region overtook North America in terms of growth quarter-on-quarter, highlighting an accelerated progress to shorten the gap, especially in the hospitality industry.

Why are we observing this higher interest in sustainability in Asia Pacific hotels now? What are the real challenges faced in Asia Pacific that are holding hotel stakeholders to progress even faster in their sustainability journey? To get the pulse on what is really happening on the ground, JLL has undertaken a survey on hotel investors and hotel operators in Asia Pacific during the month of April 2022.

²ULI Hotel Sustainability Report 2019

With mounting pressure from global shareholders, government institutional incentives and sustainability linked financing are key in getting owners and developers on board in Asia Pacific

Sustainability doesn't seem to be driving deal preference and pricing in Asia Pacific yet, but when asking investors and operators what the primary motivations behind the rising importance of sustainability in the region are, both types of respondents have agreed that shareholders – including fund level – form the top motivation. As most global investment players have their headquarters in Europe and in the United States, they are already facing strict requirements from institutions and governments. This global pressure is gradually spreading to Asia Pacific hotels, albeit still at a slower pace when compared to Europe or North America. Indeed, Asia Pacific is still facing some institutional challenges to help with the process in turning hotels more sustainable, as sustainability is not yet high on the agenda in some Asian countries.

To support the implementation of sustainable practices in APAC hotels and get local hotel players fully on board, some countries have however already taken a step further by implementing a tangible action plan.

It is the case in Singapore. In March 2022, the Singapore Tourism Board and the Singapore Hotel Association have launched the Hotel Sustainability Roadmap, in line with the Singapore Green Plan 2030 adopted in 2021. The roadmap has set two clear objectives for the hotel industry in the city-state:

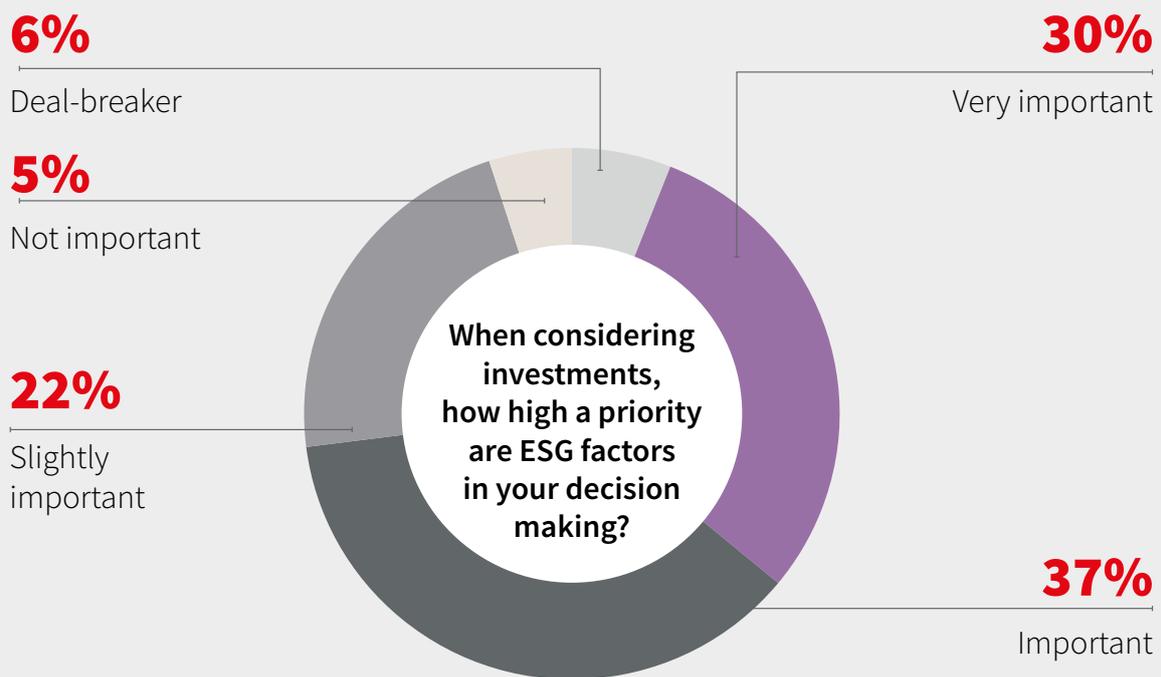
1. 60% of hotel room stock in Singapore should attain internationally recognised hotel sustainability certification by 2025
2. For hotels to commence tracking of emissions by 2023 and reduce emissions by 2030, with a view to achieving net-zero emissions by 2050.

Further south in Australia, the City of Sydney has set tougher requirements of energy savings for new developments starting January 2023, in order to meet its net-zero emission targets by 2035.



Although Asia Pacific is lagging behind other regions in terms of taking into account sustainability aspects in hotels, investors in the region seem to pay attention to those factors when considering an investment opportunity: close to 75% of the respondents consider ESG factors as important, very important or deal-breaker. Interestingly, 27% of investor respondents do not think that ESG factors are important in the decision making, highlighting that Asia Pacific is still lacking convincing elements.

And one of the convincing elements is related to the financial support, considered the current crux in the implementation of sustainable measures to meet governments' ambitious targets of carbon neutral. When questioned, investor respondents have admitted having limited access to sustainability-linked loan facilities in Asia Pacific, especially on preferential terms.



Source: JLL Hotel Sustainability Survey 2022 Asia Pacific





Source: JLL Hotel Sustainability Survey 2022 Asia Pacific

One of the main global players supporting sustainability initiatives in the private sector, and especially in the hospitality sector, is the International Finance Corporation (IFC). IFC, a member of the World Bank Group, helps developing countries achieve sustainable growth by financing investment, mobilising capital in international financial markets, and providing advisory services to businesses and governments. Originally adopted in 2006 and updated in 2012, IFC has launched its Sustainability Framework which supports companies in managing risks and doing business in a sustainable way, among other commitments. In Thailand, Asset World Corporation (AWC) has been granted a green loan of up to USD143 million (c. THB4.5 billion) to finance new green projects and decarbonize its existing assets. Apart from helping AWC with the financing, IFC is working with the hotel group to receive the EDGE (Excellence in Design for Greater Efficiencies) certification of at least five for its hotels including retrofitting, refurbishing, and new constructions.

In Singapore, hotel players are gradually taking steps into the sustainability journey as green loans are more easily accessible, in line with the implementation of Singapore Green Plan 2030. Major banks such as UOB, Maybank Singapore and

OCBC are already supporting the hotel industry in Singapore by offering green loans and sustainability-linked loan. Recently, Ascott Residence Trust (ART) has issued its first sustainability-linked bond of USD145 million (SGD200 million) under its Sustainability-Linked Finance Framework, being the first Singapore-listed real estate trust to issue a sustainability-linked bond. In January 2021, ART was the first hospitality trust in Singapore to secure a green loan.

While the region is behind Europe and the United States in terms of sustainability in hotels, there are opportunities lying ahead as the hotel landscape in Asia Pacific is still in majority characterised by new developments built by local HNWIs and local corporates and developers across countries.

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This gives Asia Pacific developers opportunities to build sustainably and ultimately sell these assets to funds, with lower return requirements of sustainability-focused equity and debt. Currently, ESG principles may still be regarded as an exit strategy in the region.

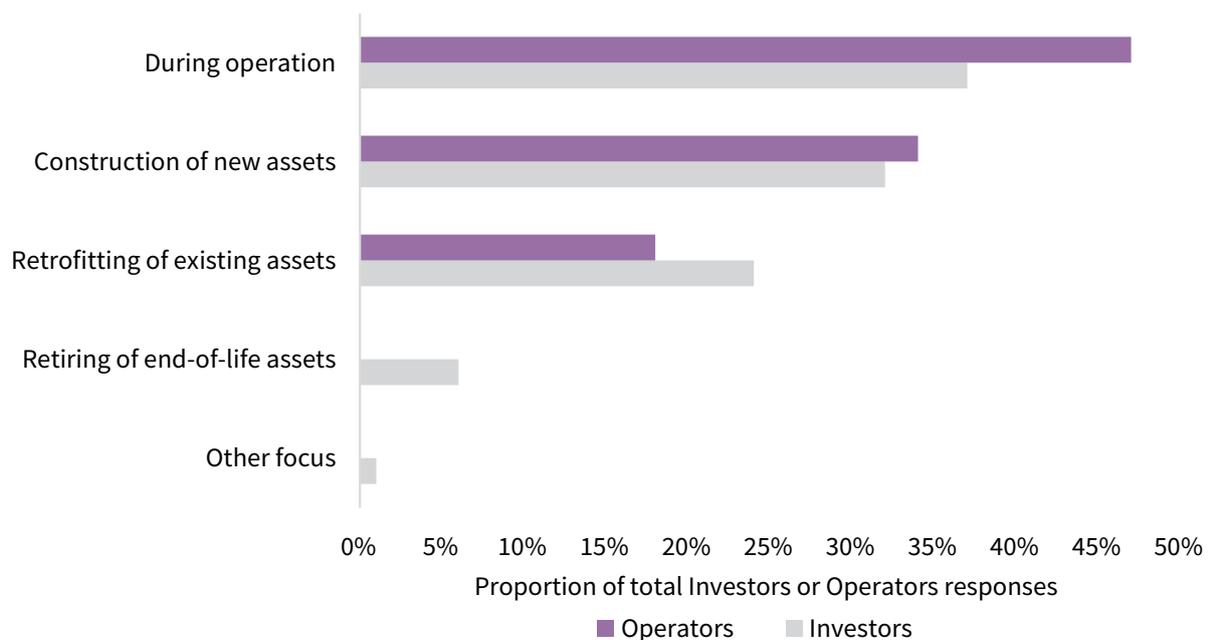
Elsewhere in the world, shareholders have well understood the risk of owning a non-sustainable hotel. As mentioned in JLL latest ESG report for Europe '[Less talk, more action - Implementing ESG in Hospitality](#)', most investors don't seem to be thinking along the lines of Green Premiums for progressing in the sustainability journey, but rather to avoid Brown Discount. Buildings that aren't sustainable will ultimately face a Brown Discount on their value, equivalent to the cost to be net-zero carbon.

This discount will come from both higher operating costs and lower demand levels, coupled with a higher discount rate to reflect the increased risk³.

The challenge in Asia Pacific, but also in other regions of the world, will be largely in retrofitting existing buildings to make them net-zero, especially in locations where those buildings are expected to exist by 2050. It is the case in Australia and Japan, where retrofitting of existing assets ranks second in the sustainability journey.

While hotel investors in Asia Pacific seem still behind other parts of the world when it comes to sustainability, hotel operators are leading the change in the sustainability journey in the region, having implemented several measures to monitor energy and water consumption.

Where is the focus on your sustainability journey?



Source: JLL Hotel Sustainability Survey 2022 Asia Pacific

³Download JLL report [Valuing hotels in a net-zero carbon world](#) to understand the impact of achieving net-zero carbon vs. lack of sustainable action on hotel cash flows (comparison of scenarios).

Changes to USALI and reporting guidelines are spurring positive changes among hotel operators in Asia Pacific

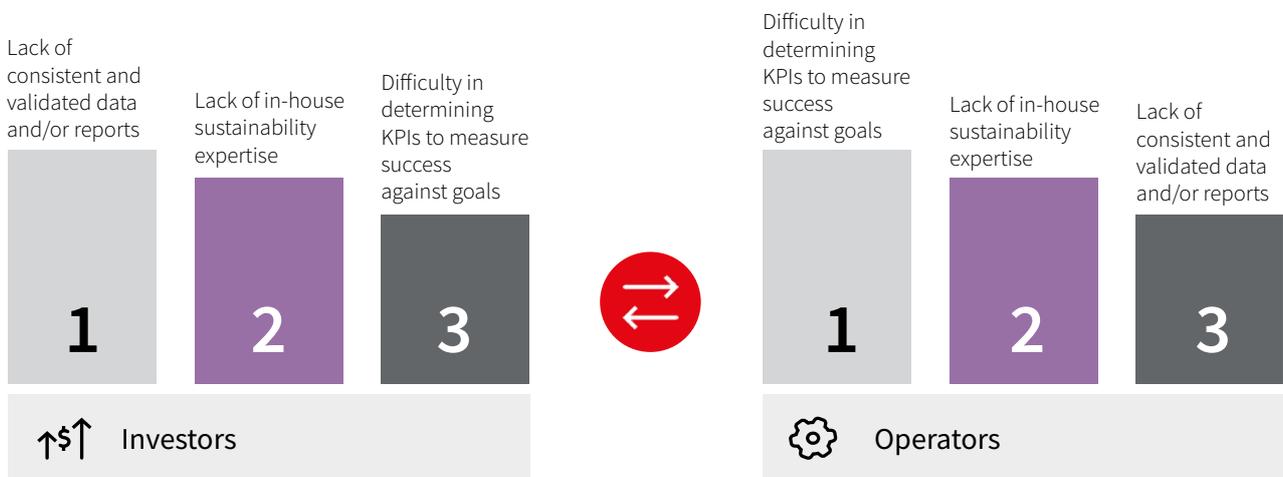
The increasing importance of sustainability in the hospitality sector is leading the Uniform System of Accounts for the Lodging Industry (USALI) to introduce metrics to monitor sustainability in hotel operations beginning 2024. Indeed, the 12th edition of the USALI is scheduled to be released in Fall 2022 and plans to include Energy, Waste and Water (EWW) metrics. The new EWW metrics is expected to provide monitoring and quantifying of EWW cost and usage within a hotel, with the assumption that “Managing EWW cost, utilization, and environmental impact may improve a hotel’s profitability, enhance compliance with environmental regulations, and reduce its environmental footprint”⁴. **Hotels in Asia Pacific would then ultimately face the industry’s requirements to be sustainable, inciting positive changes in the sector.**

Currently in Asia Pacific, the sustainability journey focuses on the operational side of the business. More specifically, hotel operators are most equipped with measurement and monitoring tools located in rooms, followed by Plant & Equipment.

Conversely, common areas and wellness areas should draw attention as less than a third of operator respondents have implemented monitoring tools in these parts of the hotels.

Adhering to one or more certifications also plays an important role as it acts as a powerful communication axis that operators can easily show to the public and consumers. In Asia Pacific, only 44% of the operator respondents are adhering to at least one certification, and a third has no plan to adhere to one in the near term. This result clearly shows that hotels in the region are not yet ready to implement a full set of sustainability measures, as green certifications have minimum standards to meet. Carbon-neutral and net-zero plans seem to be still far away in Asia Pacific due to a significant lack of KPIs and local benchmarks, as reported by both investors and operators.

In your opinion, what are the top 3 challenges in setting or achieving environmental goals in your hotel(s)?



Source: JLL Hotel Sustainability Survey 2022 Asia Pacific

⁴USALI 12th Revised Edition Exposure Draft – Energy, Waste and Water.

Additionally, Asia Pacific is witnessing sprouting interest in green-linked management agreement, comparable to 'Green Leases' in other traditional commercial real estate sectors. In Australia, Salter Brothers have signed a major deal with Accor, launching Australian first innovative ESG linked management agreement. This agreement is expected to be driven by tangible targets such as green energy procurement, waste and energy, water reduction and diversity.

With many corporates having committed to their own net-zero targets, there is an increased focus on their procurement including hospitality. In Asia Pacific this is still in an early stage with 62% of operators reporting that none or less than 10% of corporate accounts have ESG requirements. Once we see increased consumer pressure (especially on volume accounts) for ESG commitments, it will only strengthen the business case for hotel owners to invest in such programs to increase their revenues.

Hotel operators are an important sale vector to drive technical standards, especially as they are on the forefront and are the interface between guests and hotel investors, and ultimately set build and operating standards.

7%

Yes, it affects more than 30% of my business mix

10%

Yes, it affects 20% to 30% of my business mix

21%

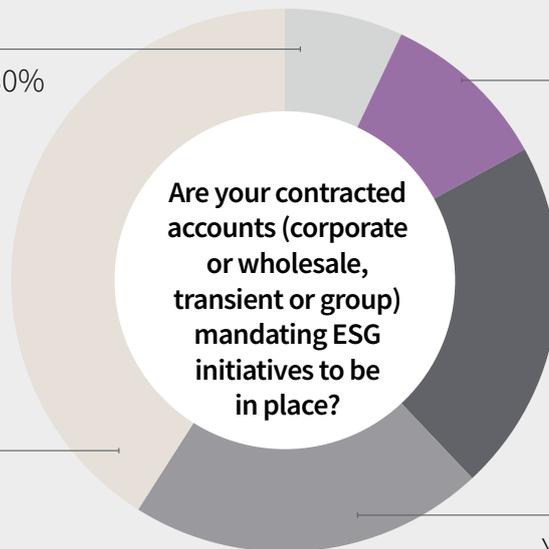
Yes, it affects more 10% to 20% of my business mix

21%

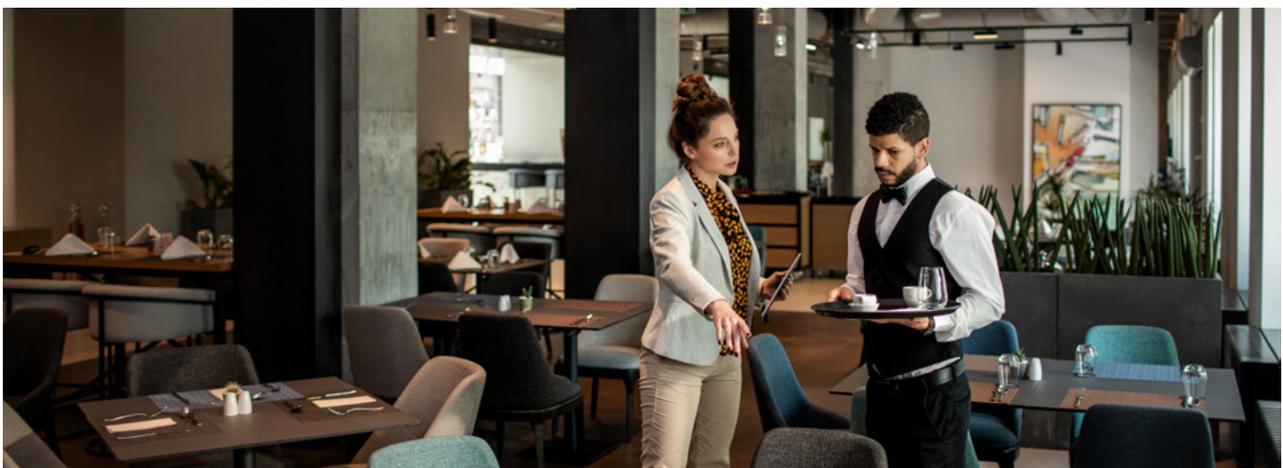
Yes, it affects more 0% to 10% of my business mix

41%

No



Source: JLL Hotels & Hospitality Group



In a nutshell, Asia Pacific is still far behind Europe and North America when it comes to sustainability initiatives and requirements for the hotel industry. However, the concept is rapidly gaining importance in the region as big players – both operators and investors – have global presence, thus bring sustainability high on the agenda. Requirements from institutions in Asia Pacific are gradually adding to the mounting pressure.

Government institutional incentives and sustainability linked financing are key in getting owners and developers on board in Asia Pacific, while changes to USALI and reporting guidelines are spurring positive changes among hotel operators in Asia Pacific.

An ecosystem of partnership is necessary for the hotel sector to achieve the ambition to be net-zero carbon through new constructions, but also through retrofitting assets.



Key statistics from the JLL Hotels Sustainability Survey 2022, Asia Pacific



Shareholders including fund level

#1 motivation

behind the importance of sustainability



Lack of **data** and difficulty in determining clear

KPIs as main challenges in setting or achieving environmental goals



Operations

Current main focus on the sustainability journey



2 out of 3

Investors pay great attention to ESG factors when considering an investment opportunity



3 out of 4

Respondents had no access to sustainability-linked loan facility in the past 3 years



62% operators

reporting that none or less than 10% of corporate accounts have ESG requirements





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