

# Cutting through the Greenwash to Improve ENERGY EFFICIENCY in Australia's Hotels

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**D**espite strong financial performance in hotels over the last few years, the sector is lagging other building types when it comes to energy efficiency. The large-scale adoption of energy efficiency programs has been hindered by market barriers such as split incentives and a lack of publicly available information on hotels' energy consumption and emissions meaning that owners are not rewarded for their efforts. Hotels can do a lot to improve energy efficiency without becoming uncompetitive, but the question is: is self-regulation enough to get these programs up and running or is government intervention required?

## STRONG FINANCIAL PERFORMANCE FOR THE AUSTRALIAN HOTEL SECTOR

In recent years the economic performance of the Australian Hotel Sector has been very strong. In most capital cities increasing demand, from both domestic and international visitors, has outstripped supply of new rooms leading to increases in key financial metrics such as Average Daily Rate (ADR) and Revenue Per Room (RevPar). The flow on effect for investors has been positive. Tourism Australia (2019) states that "compared to other property types, hotel investments performed favourably over the last ten years to July 2017" and that "the risk return profile of hotel assets was superior to that of other asset classes"<sup>1</sup>.

## HOTELS' ENERGY CONSUMPTION TRENDING UPWARD

Unfortunately, the strong financial performance of Australia's Hotels hasn't translated into a step change in energy efficiency. Research by Pitt and Sherry has forecast that energy intensity of Australian Hotels will continue to increase from 1,420 MJ/m<sup>2</sup> in 2009 to 1,652 MJ/m<sup>2</sup> in 2020, while the energy intensity of offices and other public buildings was expected to reduce.

HFM have observed the lower uptake of energy efficiency measures amongst Hotels first hand; a recent comparison of the energy intensity across a portfolio of 20 Australian Hotels showed no reduction in energy intensity over the last 5 years and no obvious difference in performance between newly constructed hotels and those in operation for ten or more years.

## THE AUSTRALIAN HOTEL INDUSTRY AWASH WITH 'GREEN SCHEMES' – UPTAKE IS LIMITED

There are several rating tools and schemes available which allow voluntary assessment and promotion of energy efficiency in hotel operations, however, despite the success of these tools internationally and across other asset classes uptake within Australian hotels has been limited. The largest programs include; Earthcheck, Gleenglobe, Greenstar Performance, NABERS Energy and Water for Hotels as well as hotel own brand tools such as Accor's Planet 21.

Both Earthcheck and Gleenglobe have limited footprints in Australia with a low number of companies registered for either scheme. Despite the large uptake in Offices & Shopping Centres, there are currently zero Greenstar Performance and only four Greenstar design and as-built ratings publicly registered and certified for Hotels. The voluntary uptake of NABERS for Hotels has also been very limited with only a small group of hotel owners participating. Less than 1%<sup>2</sup> of all hotels are rated each year and the trend is not positive, falling from 0.7% in 2012 down to a meagre 0.1% in 2018.

## MARKET BARRIERS TO IMPROVEMENTS IN ENERGY EFFICIENCY

There has been a large shift away from the owner-operator model with owners turning to independent management companies to operate their facilities. This business model has attracted many overseas and domestic funds into the lucrative Australian hotel market however issues arise due to operator remuneration methods and short management contracts.

One of the most common remuneration methods is a base fee determined based on Gross Revenue (GR) plus an incentive payment based on Gross Operating Profit (GOP)<sup>3</sup>. Remuneration based on GR means that energy efficiency projects, which do not directly increase revenue, are forgone in favour of investments with the potential to provide an immediate increase, such as lobby refurbishments. Additionally, as management contracts typically lasting 5 years and leases 10-15 years, far shorter than the replacement life cycle of some major plant, operators are not motivated to recommend investment into these items as they won't see the full benefit.



## THE ROLE OF MANDATORY DISCLOSURE OF ENERGY EFFICIENCY IN ADDRESSING MARKET FAILURES

The Commercial Building Disclosure (CBD) program was implemented in commercial offices in 2011 to address market failures in the voluntary adoption of energy efficiency opportunities. The program utilises the NABERS Energy for Offices rating tool which rates energy efficient operation on a scale of 0-6 stars. Under the mandatory disclosure program NABERS ratings must be displayed on advertising when over 1000m<sup>2</sup> is put up for sale or lease. A review of the CBD program in 2015 showed that it has been successful in changing the behaviour of building owners, operators and tenants regarding energy efficiency in commercial offices across Australia<sup>4</sup>. In 2015 the reductions in energy intensity for participating buildings had resulted in economic benefits, in excess of costs, of \$44 million dollars with a further \$53.3 million in net benefits forecast over the next five years of the program's operation.

The Department of Environment and Energy is currently reviewing whether the expansion of the existing Commercial Building Disclosure (CBD) Program is expected to improve the energy efficiency of Australia's Hotels. Industry consultation currently underway and the final report and recommendations are expected in September 2019. Initial comments indicate there is significant support from private organisations, local councils and government organisations for the expansion for the CBD program to other high energy using building types such as hotels. The expansion of the CBD program is also identified as a primary objective within the Federal Government's trajectory for Low Energy Buildings which is an initiative underpinning Measure of the National Energy Productivity Plan<sup>5</sup>.

## IF MANDATORY DISCLOSURE IS IMPLEMENTED WILL HOTEL OWNERS AND OPERATORS BE MOTIVATED TO TAKE ACTION TO IMPROVE ENERGY EFFICIENCY?

The extension of the CBD program is expected to reduce market barriers primarily through provision of energy efficiency information to stakeholders. The feasibility study for the expansion of the program recommended that it should only apply to hotels with more than 50 rooms and that the NABERS rating

tool for hotels is used, primarily due to a lack of another suitable rating system<sup>6</sup>. The point of disclosure is still under review however mandatory annual disclosure is most likely hotel, as sale or lease transactions occur too infrequently. Finally, the feasibility study recommended that the extension of the CBD program should be accompanied by other complimentary policy, also currently under review, for example, the NSW State government has announced plans to introduce energy criteria in NSW Government hotel bookings to encourage efficiency operation in the industry. It is expected that NABERS would be used as the benchmarking tool to compare hotel energy efficiency.

While action to increase energy efficiency has been shown to produce significant financial benefits for buildings in other industries uptake of efficiency programs for hotels has been slow. This presents a significant opportunity for the industry. However, it appears that Government intervention will be required to ensure owners and operators committed to improving energy efficiency are able to fully realise the return on their investment.

## REFERENCES

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