



# Profitability in Sustainable Hospitality Development

Daron S. Rose, Managing Partner



## ArtBuild Hotel Group

ArtBuild Hotel Group specializes in hotel fee-development and hospitality consulting. The company's primary focus is in the development of 2, 3, and 4 star hotel/motel properties throughout the CIS.

## Our Main Services

- Hotel Consulting
- Turn-Key Development
- Interior Concept & Design
- Facade Concept & Design
- Hotel Construction
- Green Building
- Hotel Management
- Exec Search, HR & Training
- FF&E (Furniture, Fixtures & Equipment)
- Hotel Operator Selection and Negotiation
- Existing Hotel Auditing





## Best Western International

In 2011, the ABHG entered into a partnership with Best Western International, one of the world's largest hotel chains. As per the master license agreement signed between ABHG (Kyiv, Ukraine) and BWI (Dublin, Ireland), the company has the permission and competency to review and assist all projects and properties interested in becoming part of the Best Western Hotel Chain in Ukraine.



## Ukrainian Green Building Council

The ArtBuild Hotel Group actively supports the promotion of green building in Ukraine. Thus in 2010 we co-organized the Ukrainian Green Building Council (UaGBC).



## UaGBC and WGBC

In September of 2011 the UAGBC became an official member of the World Green Building Council attaining "Prospective" status.



“Green” hotel development has gotten its fair share of criticism because regardless of how you look at it, it has been labeled as a trend.



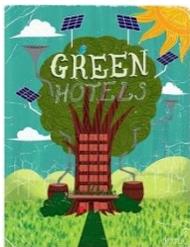
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Evidence shows that demand for green operation is a long-term trend. The big brands such as Marriott, Hilton, Starwood and industry trend setters are all making moves towards adapting green building principles and operations.





The hotel industry has delayed longer than other building industry segments to join and adapt to green building standards mostly due to the fact that guests for a long time didn't see the importance in this factor. Any increase in room rates was seen as an inconvenience. Without consumers demanding green hotels, the perception of greater cost for green hotel development was an obstacle to the industry's adoption.

## HOTEL GUESTS



*why?*  
*why?*  
**why?**  
*why?*  
*why?*



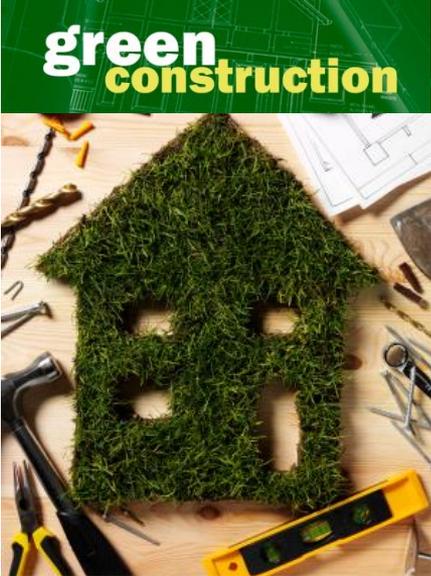
## True Cost of Sustainability



## Sustainability In Hospitality



«Building Operating Factor»



«Behavioral Factor»



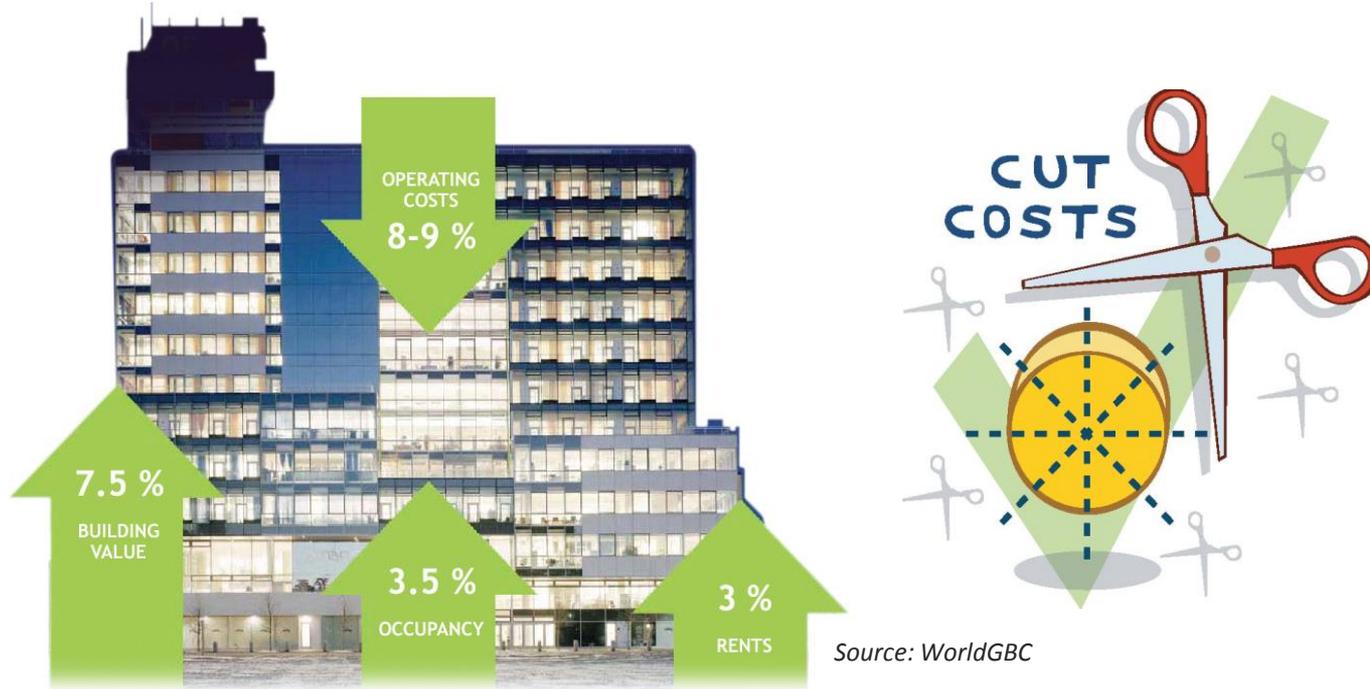
Initial Building Construction – It used cost an average 15% premium to incorporate green building technologies due to the fact that they were in their first generation. Solar panels converters, wind turbines, building materials, etc.



**First Generation**



Since the emergence of such technologies, especially systems catered to hospitality (water supply air-injection systems), they have developed extensively since their inception and have become a very cost effective way to reduce future operational costs.



Source: WorldGBC

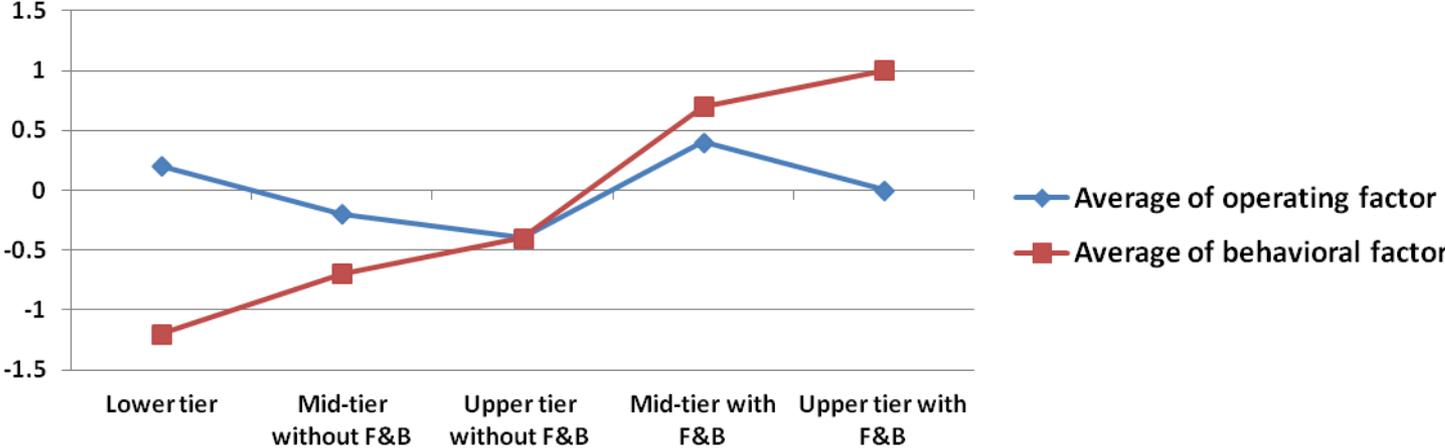
## Factor loadings, showing variables included in each of the 2 factors

Variables	Factor 1 (Behavioral)	Factor 2 (Operating)
Electricity expense (% of RevPAR)	0.134	0.586
Water & Sewer expense (% of RevPAR)	-0.183	0.550
Maintenance other expense (% of RevPAR)	0.377	0.430
Rooms LLS expense (% of RevPAR)	0.571	-0.047
F&B LLS expense (% of RevPAR)	0.597	-0.116

*Number of observations = 7,854. Principal factor method, oblique promax rotation (Kaiser on)*

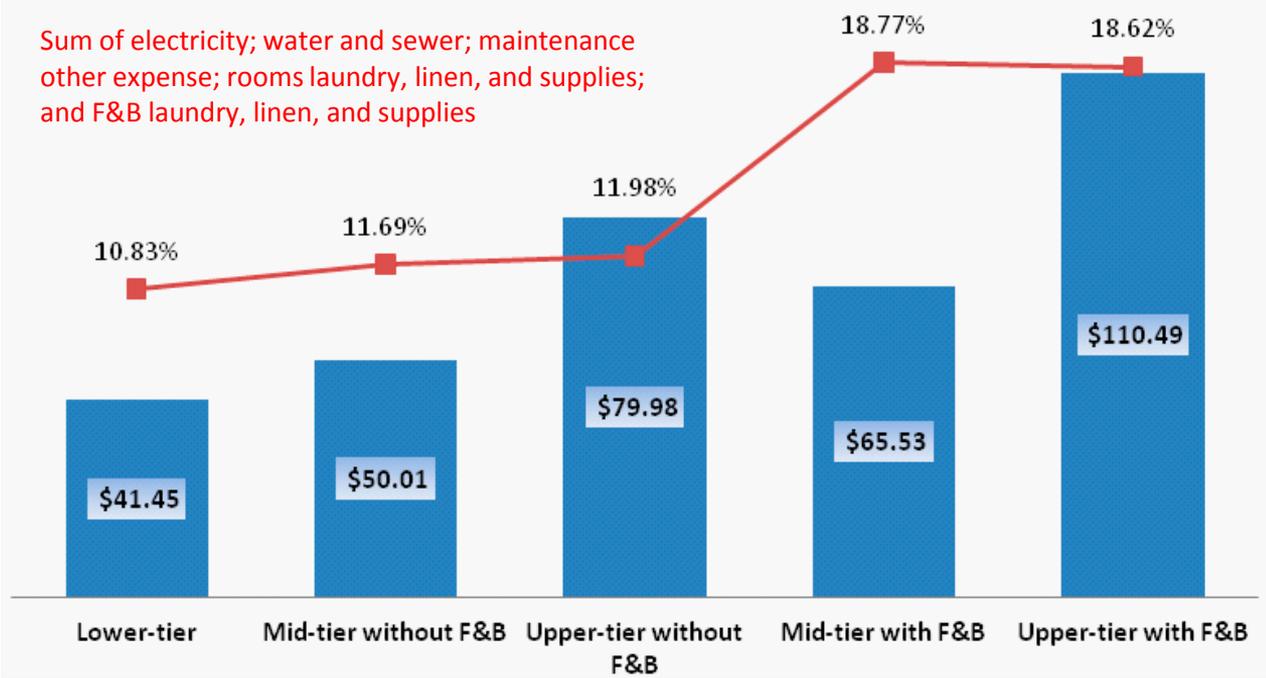
*Source: Cornell Hospitality Report*

## Environmental sustainability factor scores and chain segment



Source: Cornell Hospitality Report

## Energy, water, and supply expenses as a percentage of RevPAR, 2001–2008



Source: Cornell Hospitality Report

Each year the economics become even more compelling. USGBC statistics report an even more dramatic change in the cost benefit analysis of LEED certified buildings. Improved technology, materials, techniques, and overall building experience have reduces the cost premium of “Green Certified” construction to only 1 -2 % of the project costs.



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**PROJECT  
COSTS**

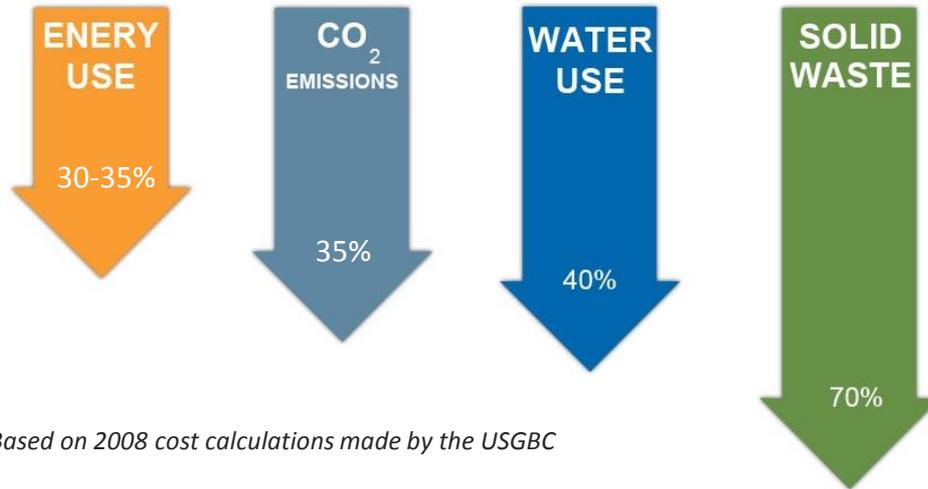


**only 1-2% ↑**

*Based on 2008 cost calculations made by the USGBC*

Hotels are different than other commercial projects or residential projects in that you are not selling off the sqm and passing on the exploitation costs to the end-user. Direct decreases in costs for a hotelier reflect immediately on profits. Hard savings of 30-50% in energy use, 35% in carbon emissions, 40% in water, and 70% for solid waste help offset any remaining premium to build.

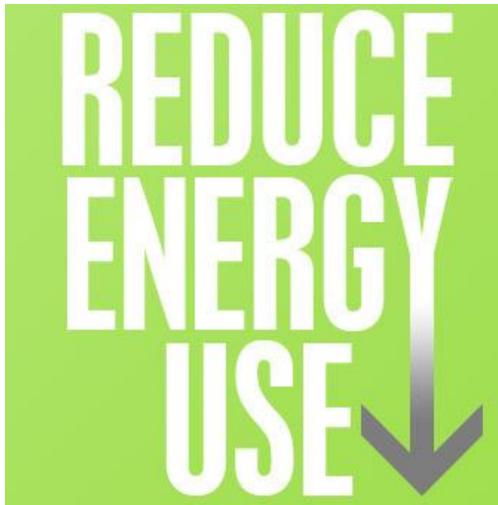
## Green Buildings Can Reduce...



*Based on 2008 cost calculations made by the USGBC*



The U.S. EPA Energy Star Program did a study of energy savings into hotel terms. The study found that every 10% reduction in energy consumption equates to a hotel raising its ADR by \$1.35 for full-service properties and \$0.60 cents for limited service properties.



**10%**

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**\$1,35**



If you apply the USGBC figures of hard savings percentages to this mathematics:

- Limited Service stand to earn (\$1.80 – \$3.00)
- Full Service stand to earn (\$4.00 – \$6.75)

} *\*equivalent benefit to increasing ADR*

In addition, if you estimate the long term rising costs of energy, water, and waste disposal, the benefit is likely to increase!



**Limited  
Service  
\$1,80-3,00**



**Full  
Service  
\$4,00-6,75**



The USGBC estimates that financial benefits of green design are between \$50 and \$70 per square foot in a LEED Building, over ten times the additional cost associated with building green. These benefits are in lower energy, waste and water costs, lower environmental and emissions costs, and lower operational and maintenance costs.



**\$50-70**

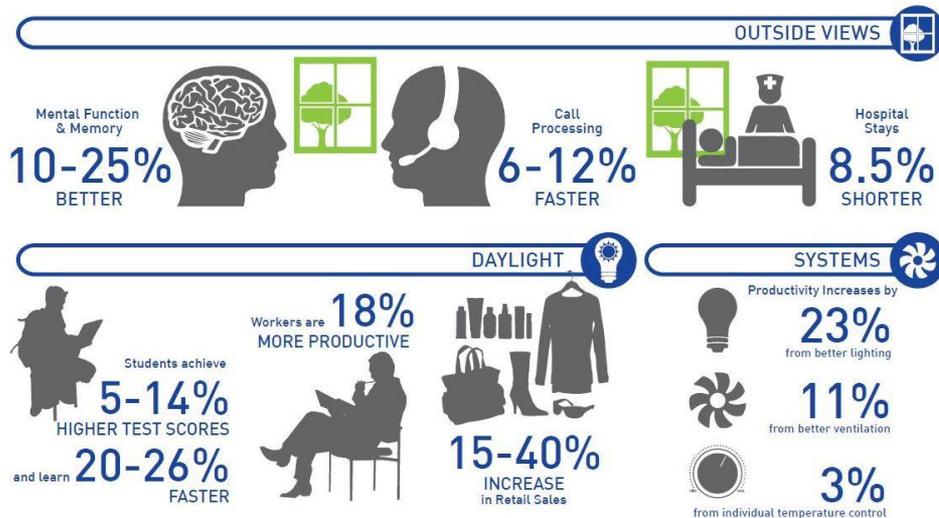
**LOWER ENERGY CONSUMPTION**  
=  
**LOWER BILLS**





Increased health and productivity is also an important factor that plays into the benefits of building green. This is reflected in better use of natural light, improved thermal comfort and better ventilation, reducing the use of toxic materials, etc.

## Increased Health and Productivity



Sources: WorldGBC, RED Magazine

## NOT SO EASY IN CIS





Now it's not all that easy to build green. Despite the benefits, there are very serious hurdles in developing and operating green properties in the CIS which are very specific.



## Further Obstacles for Building Green in Hospitality

- HMA and owner/manager relationship (Addressing issues that affect the bottom line of both entities).
- Hotel Brands' design standards can be over-restrictive. Many brands re-modifying prototypes to accommodate sustainable design.
- Meeting expectations of paying guests. Manage expectations between luxury and comfort in terms of green operations.



ADVICE

**To sum up:** It is by far cheaper and more efficient to build green with a Greenfield project rather than a retrofit, although both can benefit economically. The benefit most certainly outweighs the cons in developing sustainable hotel projects. The best advice is to start early in your planning stages and don't hesitate to bring on board seasoned consultants and outside help. From our companies personal experience, the learning curve on green building is steep and expensive, but in the end the results are most certainly worthwhile.





*Thank  
you*

**ArtBuild Hotel Group**  
**4, M. Hrinchenka St.**  
**03680 Kyiv, Ukraine**  
**tel.: +38 (044) 521 20 06**  
**fax: +38 (044) 521 20 07**  
**info@artbuild.com.ua**  
**www.artbuild.com.ua**

