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ESG & THE EUROPEAN HOTEL SECTOR



EUROPEAN SUSTAINABLE
HOSPITALITY CLUB

FOR EXCELLENCE IN TRAVEL & LEISURE

INSIGHTS

ESG, COVID & HOSPITALITY INVESTMENT

by Maribel Esparcia Pérez / edition Dan Pontarlier

The COVID-19 pandemic is causing a crisis suffered by societies globally. Many industries are going through hard times, but the hospitality industry has been hit hard by the downturn. All tourism sub-sectors are impacted severely due to its operating structure.

Now, investors, building owners, and hotel operators have the challenge to reactivate the industry activity and do it looking for long-term solutions that also address global grand challenges, environmental and social issues.

The current situation is affecting the whole travel industry, turning perspectives and priorities for all the different stakeholders. The pandemic has intensified existing challenges such as social inequalities, so we need a responsible and inclusive recovery.



It is time to reflect and rethink about what means doing a “good investment”. It is key that all industry players recognize the challenges and the importance of ESG metrics, benchmarking, and corporate reporting.

Investment from banks and governments - company bailouts - also matter. Governments have handed billions of dollars to support struggling carbon-intensive companies. Hence, banks and public institutions should support and give capital access to struggling companies that are socially and environmentally responsible, not just profitable on paper.



It is essential that, despite the current crisis, hospitality operators and owners do not only focus on turning P&L's situation around but also keeping investment plans and strategies to become a regenerative, socially, and environmentally responsible business.

It should still be a priority and viewed as a key investment for the company's reputation and competitiveness.

KEEPING ESG INVESTMENT PLANS & STRATEGIES



Despite recent studies are pushing back on the assumption that ESG stocks have had a better performance during the pandemic crisis

- “Our study provides robust evidence to refute the widespread claim that ESG is a significant share price resilience factor during the COVID-19 global crisis” - companies do not get investors' support simply by issuing sustainability reports and engaging in other standard practices.

Companies must integrate ESG efforts into strategy and operations. It is a long-term strategy.



BEST PRACTICES

LET'S FOCUS ON WHAT MATTERS:

1. Identify the material issues in the hospitality industry - such as the importance of sustainable supply chain management - and develop initiatives.
2. Being accountable and having mechanisms in place to ensure the board's commitment (i.e EP&L, SASB).
3. Get cultural changes right - companies with a stronger sense of purpose and enthusiasm for sustainability and good governance (i.e Bcorps).
4. Make responsible initiatives mainstream, everyone involved in operations.
5. Include in Investor Relations reporting and communications transparently about environmental, social and governance issues.



Rating the company performance

- Investigate ESG metrics at Sustainalytics
- Consumer behaviour is changing at fast speed: B2B and B2C audiences are looking for accountability, transparency and commitment from brands.
- Especially in Corporate travel. Sustainability requirements are the new normal for many companies RFP's.
- Allocators of capital, banks, and asset managers play a big role in tackling environmental and social issues (such as offsetting, improving local communities' wellbeing, and becoming a regenerative business model) by supporting businesses that are a force for good.

EU taxonomy

In 2021 EU taxonomy regulation requires investment companies to disclose their ESG performance. EU taxonomy classifies economic activities by their input to environmental objectives, encouraging investors to understand the sustainability risks and opportunities of their investments.

Industry portfolio companies can design policies, set objectives, and provide members with the education and tools required to succeed in tracking issues and achieving those targets.



ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)



ESG criteria are meant to assess the impact of a company's operations over:

- Environmental issues such as the connection between human health and environmental integrity, energy consumption, energy efficiency, carbon emissions, and climate change, waste management, water stewardship, and biodiversity conservation.
 - Social issues such as the business impact on communities, talent attraction, equal opportunities, attrition rates, or human rights advocacy.
 - Governance issues such as solvency, economic performance, data security, privacy protection, compliance, business ethics, R&D, human capital development, diversity, workforce policies, pay at least a living wage to every employee, transparency, supply chain traceability, diversity, and inclusion.
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Usually, intangible assets account for more than half of the companies' valuation.

Two of the most renowned entities in investment and business sustainability, the Principles for Responsible Investment (PRI) and the World Business Council for Sustainable Development (WBCSD), announced a collaboration to bring together investors and businesses to enhance their sustainability efforts and impact.

This is excellent because together can better help discussions between investors and businesses on how to make this practical and efficient, what data is needed, how to manage the data, and when to use it.



HOW CAN WE GET ESG DATA?

Software solutions can estimate ESG performance. There are many solutions to know portfolio footprint, but not that many platforms include all sustainability, social and good governance metrics. Turnkey, greenview, Normative.io, IFC's software EDGE. The software has also to comply with the EU taxonomy.

ESG criteria are crucial for Hospitality Asset Management

The investment policy statement (IPS) is pivotal.

The IPS objective is to document the investment plan and guidance for consistent, informed decision-making. Thus, it should be a critical element in any advisory relationship. A roadmap to ensure successful investments and to prevent unethical investor behavior.

Advisers should not skip the creation of investment policy statements for their clients.

This criteria brings a real picture of the asset situation, increases its value and brand market reputation in the long run. ESG assessment helps to:

- Mitigate Risks; what are the risks if you are not doing the project? In the sources of income, revenue & expenses risks.
- Capture Business Opportunities; Increase Market Value, Asset Value Increase, ROI/ Financial analysis, CAPEX, employee expenditure, operating expenses, and gross revenue growth.
- Purpose Management and progression in the company's ESG goals achievement.



ESG due diligence

ESG due diligence before the investment decision-making is key. Investors could achieve steady and robust dividends from REITs that invest in sustainable practices.

Sustainability strategy and practices, when done right, can improve portfolio risk management. Hotel chains shareholders focused on sustainability yield high returns and mitigate risks (higher cash flows and decreased expenses such as interests).

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Useful benchmarking reports such as GRESB Real Estate Assessment and Cornell Hotel Sustainability Benchmarking Index disclose hospitality companies and owners committed to putting sustainability at the core.

Sustainable hotels benefit from utility savings, long-term renewable energy supply, growth by serving consumers and community demands, improve risk management including sustainability assessments analysis and matrix, are value-driven and purpose- focussed, anticipate regulations, and engage easily with different certification schemes.

Hotel investors and asset managers, including ESG metrics on their investment analysis, play a key role in setting the tone and pushing a sustainable pathway. Introducing sustainability criteria and reporting requirements for assets - from project design to sale. Impact investing is the way forward, to face global challenges such as equity and inclusion.



According to this study - “The study sheds light into just how little diversity exists in the ownership of asset management firms” - firms owned by women and minorities are just 1.3% of the assets in the \$70 trillion asset management industry.

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The purpose of this document is to encourage industry stakeholders to engage in a recovery from this pandemic that has its grassroots in green and social investment.