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## Greening Hotels

by Jim Butler





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Green development and sustainable operations are attracting attention in the hotel industry, but is it just a trend that will be abandoned when something "cooler" comes along?



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THOUGH HIGH-PERFORMANCE buildings meeting U.S. Green Building Council (USGBC) standards have sprung up around the country at a rapid rate, few are hotels. However, significant hotel mixed-use projects now in the pipeline have registered with the USGBC and are following green building principles in an effort to achieve some level of certification under the Leadership in Energy and Environmental Design (LEED) program. Among these projects are the W Hotel & Residences at Hollywood and Vine in Los Angeles, and the world's largest hotel mixed-use project, the \$7.4 billion, 68-acre (28-ha) MGM Mirage CityCenter in Las Vegas. Why have the developers—widely respected for their fiscally responsible approach to business—decided to seek LEED certification?

LEED certification figures tell part of the story. There were no LEED-certified buildings in 2000, when the LEED standards were first promulgated. As of last August, however, about 900 buildings or projects in the United States had been LEED certified, and another 8,503 projects have registered under the program—taking the first step toward certification. In August, only four of the LEED-certified projects were hotels, but at least another 60 hotel projects—including W Hotel & Residences and CityCenter—have registered for certification. The USGBC estimates that by 2010 there will be 100,000 LEED-certified commercial buildings and more than 1 million certified homes.

In the hotel industry, the major hotel brands, including Marriott, Hilton, Fairmont, and Starwood, are launching initiatives and announcing environmental programs that are likely to have sweeping effects on the development and operation of their properties. Many of the new hotel brands coming on stream,



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such as Barry Stemlicht's new 1 Hotels and Residences, are emphasizing environmental friendliness.

In part, the slow adoption of green building standards for hotels was prompted by the sense that most people—including hotel guests—did not think that being environmentally responsible was very important, particularly if accomplishing it was expensive or inconvenient. That is changing now.

The other major obstacle to green hotel development has been the perception of higher cost. Several years ago, the cost premium for constructing a green building may have been 10 to 15 percent. However, at that time, many technologies—from solar panels to wind turbines to building materials—were in their first generation of development, and therefore more expensive and less effective.

**At Calistoga Ranch, a resort in Napa Valley, California, structures are integrated into the existing setting of heritage oaks and rock outcroppings.**

Current studies show the added expense of building green is negligible to cost-neutral. A report issued in 2003 documented that the cost premium for building LEED-certified projects was only 1 to 2 percent for buildings achieving LEED Certified, Silver, or Gold ratings.

The report—commissioned by the California Sustainable Building Task Force, a group formed by more than 40 state agencies, working with USGBC—also documented the decline of green design and construction costs over the past few years, a change it linked to greater experience in building green. For example, the



report showed that for Portland, Oregon's three completed LEED Silver buildings—finished in 1995, 1997, and 2000—cost premiums dropped from 2 percent on the first, to 1 percent on the second, and to zero on the third. Likewise, cost premiums for LEED-certified buildings in Seattle dropped from 3 to 4 percent several years earlier to 1 to 2 percent by 2003.

Today, the economic argument for green construction is even more compelling, according to USGBC statistics. While confirming the premium of 1 to 2 percent of project costs, USGBC has found cost reductions at buildings meeting LEED standards to be 30 to 50 percent in energy use, 40 percent in water use, and 70 percent in solid waste produced during construction; there is also a 35 percent cut in carbon emissions. These savings produce a payback of the green cost premium in one to two years, USGBC data show.

Hotel developers, like all developers, have had to grapple with the cost of building green. When the perceived—or actual—premium was 10 to 15 percent, it was tough to make the economics work. But now that the cost issues seem manageable, there are still other—though much lower—hurdles to surmount, such as finding vendors, contractors, engineers, housekeepers, landscapers, and managers that understand new green systems, products, and procedures. Also, once all these people are found, the cost of training them must be addressed.

Complicating matters for hotels is the overlay of typical hotel management and franchise agreements. Most branded hotels are not owned by the branded company, but by private investors. The hotel owners are able to use a brand name by virtue of either a management agreement, under which the branded company manages and uses its name on the hotel, or a franchise or license agreement, under which some other expe-

rienced operator besides the brand operates the hotel in strict accordance with the franchise agreement.

The highly structured arrangements negotiated between hotel owners and operators have not yet addressed a number of issues raised by green development, redevelopment, or operation that affect the bottom line of both parties. Among these questions are the following:

▷ What obligation does a hotel operator have to operate a hotel in accordance with the owner's sustainability principles? Which principles should it adopt?

▷ What rights does an owner or brand have to insist that an operator conform to its sustainability principles?

▷ How does the desire to operate—or not operate—in a sustainable way reconcile with the typical operator's fiduciary duty to run the hotel for the benefit of the owner?

▷ How does an owner or operator reconcile sustainability with the experience a guest expects from a particular brand or market segment—for instance, luxury or ultraluxury? What are guests' expectations of luxury and comfort, and where on the green spectrum can their needs be adequately met? Does each shampoo bottle need to be individually boxed, and does the spa need to smell faintly like chlorine to satisfy guest expectations? Indeed, will branded luxury hotels allow waste receptacles to be placed in guest rooms with the request or expectation that guests will sort their own trash for recycling? The concept of luxury may very well be changing.

Where a hotel is operated under a franchise agreement, the owner and operator have two layers of agreements raising all these issues of compatibility. The brand may have one set of standards, and the operator another, while the owner may have its own preferences. The industry is just beginning to address these issues, many of which will be sorted out in the next several years—particularly since branded

## Demystifying LEED for Hotels

To date, the U.S. Green Building Council (USGBC) has awarded Leadership in Energy and Environmental Design (LEED) certification to only five hotels, four of which are in the United States: the Gaia Napa Valley Hotel & Spa in American Canyon, California; the Orchard Garden Hotel in San Francisco; the Hilton Vancouver Washington Hotel in Vancouver, Washington; Marriott's Inn & Conference Center, University of Maryland University College (UMUC), in Adelphi, Maryland; and the Kandalama Hotel in Dambulla, Sri Lanka.

Of these five, only one has achieved LEED Gold certification—the Gaia Napa Valley.

Since the start of the LEED program in 2000, hundreds of other buildings had been certified before the first hotel qualified—UMUC in October 2006. UMUC, the one hotel among the five built with public funds, is a conference center hotel with 126 of its 237 rooms LEED certified. The Hilton Vancouver is a full-service hotel with an upscale restaurant, 30,000 square feet (2,800 sq m) of meeting space, and 226 rooms.

The Gaia Napa Valley, with 133 rooms, and the Orchard Garden Hotel, with 86 rooms, are smaller, independent luxury hotels. At one time, many observers thought only such boutique hotels—where guests expect a more eclectic experience—could achieve LEED certification.

There are four levels of LEED certification—Certified, Silver, Gold, and Platinum. Each level takes into consideration a project from conception to its operational phase—that is, from initial blueprint through internal and external management, and to its environmentally conscious future. A structure must earn 26 to 32 points to achieve the basic certification, 33 to 38 points to earn Silver, 39 to 51 points for Gold, and 52 to 69 points for Platinum. —J.B.

The Hilton Vancouver Washington is the first LEED-certified Hilton hotel in the world. The hotel lobby includes wood paneling from sustainable forests, lighting fixtures designed and manufactured locally with recycled materials, and plentiful natural light.



management and franchise agreements often run for 20 years or more rather than being renewed monthly or even every year. Many hotels will be trying to resolve these questions under long-term agreements drafted before the environment became a pressing concern.

Also needing consideration are hotel brands' design standards, many of which would-be green developers find unnecessarily burdensome in the construction of LEED-certified, high-performance buildings. The brands need to modify their prototypes and design specifications to accommodate sustainable siting, architecture, systems, and operations, and to fill their construction departments with LEED-accredited architects and construction experts.

Studies show that hotel customers are already embracing green principles. The J.D. Power and Associates *2007 North America Hotel Guest Satisfaction Study* shows that nearly 75 percent of all hotel guests are aware of and willingly participate in environmentally friendly programs where they are staying. Kimpton Hotels and Restaurants reports that 16 percent of its guests stay at its lodgings because of the firm's eco-minded practices, such as using nontoxic cleaning agents and providing in-room recycling bins.

It is cheaper and more efficient to build green from the start than to retrofit, according to the California task force report and USGBC statistics. With little or no cost premium, a quick payback of investment outlays, and long-term savings, there is no reason to delay choosing green and sustainable options when developing a hotel.

Stuart Brodsky, national Energy Star program manager for commercial properties at the U.S. Environmental Protection Agency, put the energy savings into terms hoteliers understand. Every 10 percent reduction in energy consumption equates to a hotel raising its average daily rate by \$1.35 for full-service properties and 60 cents for limited-service

properties, Brodsky reports on the EPA Web site. Using the USGBC's figures, with a 30 to 50 percent cut in energy use, a full-service hotel would achieve hard economic savings equivalent to increasing the average daily rate by \$4 to \$6.75, and a limited-service hotel would have the equivalent benefit of a \$1.80 to \$3 increase.

In addition, the cost of energy, water, and waste disposal are likely only to increase, with long-term energy and water shortages projected, and the passage of such laws as the California Global Warming Solutions Act of 2006 (A.B. 32), which mandates caps on greenhouse gas emissions. At the federal level, the Energy Independence and Security Act of 2007, signed into law by President Bush in December, requires automakers to boost corporate average fuel economy to 35 miles per gallon from 25 by 2020, mandates increased use of biofuels, and phases out sales of traditional incandescent light bulbs.

Also in response to global climate change, the Senate Environment and Public Works Committee in December approved the America's Climate Security Act of 2007 (S. 2191), regarded by many as the climate change bill with the greatest likelihood of passage; it has yet to be scheduled for debate in the full Senate. The bill, thought by some to be modeled after A.B. 32, has many similarities to that legislation, including a cap-and-trade approach to carbon emissions and carbon credits.

Adding to the benefits of green building are the significant, but difficult-to-quantify, health and productivity improvements for hotel workers. For a business like a hotel with high labor costs, even a 1 percent increase in productivity prompted by greater worker comfort, as well as reduced absenteeism and illness fostered by working in a healthier environment, would have a

major economic impact. Plus, there are advantages in attracting and retaining employees who want to work in an environmentally friendly and healthy atmosphere.

Finally, green buildings are a hedge against obsolescence, because investors and capital sources increasingly prefer safer investments holding no hidden costs of complying with environmental regulations. Green building may even provide savings on insurance expenses and attract more favorable financing, and could act as a safeguard against contingent liabilities should nongreen buildings spawn lawsuits regarding their impact on worker health.

Incentives for green building are provided by state and local governments, and by private companies, with variations in benefits depending on where a hotel project is located. Nevada, for example, is revising its green property and sales tax incentive law after an early rush of green development indicated the existing benefits would result in more than \$900 million in sales and property tax breaks. The new law is expected to halve the tax breaks, but will not take away the benefits of those who already qualified.

A number of local governments will fast-track the approval process, allow greater density, and provide other coveted entitlements for green developments. And many utility companies, builders, and even vendors have green programs and commitments that can benefit the developer's bottom line.

With regulations and codes likely to become more stringent, green hotels can only become even more valuable and profitable. **UL**

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