



## Where will a hotel see the results of its green initiatives on its financial statement?

By: Tracy Heebner - HVS Canada

**B**eing environmentally friendly is a significant new trend in the hospitality industry. The concern for conservation and global warming has become a factor for both hotels and their patrons. Hotels can expect to see savings from proactive environmental initiatives, but operators may wonder where these savings are realized on their financial statements. Operators may also wonder what the consequences may be if they do not conform to this new ideology. As time goes by, green initiatives are proving not just to be an option, but a necessity for hotel survival.

### 1) Rooms Revenue

"Going green" can augment a hotel's ability to generate rooms revenue, and it is becoming an important marketing strategy. Having a unique environmental initiative is one way to differentiate a hotel from competitors, but not having one at all can result in lost business. According to a survey that Kimpton Hotels conducted in 2005, "16 percent of guests choose their properties because of the company's environmental practices.<sup>1</sup>" Hotels that lack green initiatives are sacrificing these potential room nights. With a green plan, a hotel can tap into this market and thereby increase its occupancy.

Eco-tourists are also a lucrative market to target. Based on a study by the Travel Industry Association of America, "within the United States alone 43 million people are self-proclaimed 'eco-tourists' who are willing to pay 8.5 percent more to environmentally-sensitive travel suppliers.<sup>2</sup>" A hotel's ability to target this market depends in large part on the location and the market area, but doing so can result in higher average room rates and occupancy levels.

### 2) Rooms Expense

Rooms expense is comprised of items that relate to the sale and upkeep of the guestrooms and the public space; employee wages and the cost of room operating supplies are also included in this category.<sup>3</sup> Environmental initiatives can decrease these costs. For example, programs to reduce laundry - guests can choose the "green" option of not having their sheets cleaned every day or use floor tubs so that only dirty towels are replaced - diminish both the costs to the hotel and the burden on the environment. These practices result in less housekeeping labour, less water and detergent use, and longer-lasting linens. According to the Green Hotels Association, this translates to savings of at least \$6.50 a day per occupied room.<sup>4</sup>

### 3) Utilities Expense

Every hotel faces utility costs, which must be paid even when the hotel sits empty. Green initiatives can directly reduce a hotel's energy costs. Using energy efficient fluorescent light bulbs is one of the easiest ways for a hotel to do this. The Fairmont San Francisco replaced its 40-watt incandescent light bulbs with 9-watt compact fluorescent light bulbs and saved \$41,564 in the first year.<sup>5</sup> Energy efficiencies result in tangible savings that improve the bottom line.

### 4) Reserve for Replacement

The reserve for replacement is a fixed expense that covers non-real estate objects that are usually not expensed but capitalized, such as furniture, fixtures, and equipment. The industry average currently for reserve for replacement ranges from three to five percent of total revenue. As this



fund is already dedicated to maintaining the quality of the facility, it can be easily allocated towards greening systems at no extra cost. In other words, money that is already allotted for can be put towards new green systems that will reduce expenses and increase profits. Thus all hotels already have a resource that can be tapped into, to start becoming green.

### 5) Other Considerations

The benefits seem to be apparent in taking green initiatives, but there are still some hotel companies that are lagging behind. Perhaps these companies do not feel the urgency of change, as what they have done in the past has always worked. The reality of the matter is that these companies will face increasing obstacles as time goes by. Big companies have the power of the distribution chain, and are using it to force compliance. Not only are these companies limiting that they do business with environmentally friendly companies, but they are also using their clout in other areas. "Some of the most powerful players in today's economy have announced breakthrough environmental initiatives in the past two years, including Citigroup, Goldman Sachs, Kleiner Perkins Caufield & Byers, McKinsey & Company, and Wal-Mart. And many large companies are putting their political muscle where their investment capital is.<sup>6</sup>" As these companies shift the economy to conform to new sustainable practices, all businesses will be forced to follow suit.

### Conclusion

To remain competitive, hotels must adapt to the heightened environmental consciousness of patrons. Proactive environmental practices not only attract additional clientele but also save on operating expenses. It will also allow hotels to stay in suppliers and creditors "good books". In today's competitive hotel industry, where every bit of business counts, hotels must go green or risk being left behind. ▲

#### Sources:

- 1 *Kimpton Media Coverage, The New York Times, June 26, 2007.*
- 2 *Ray Burger, States Green Lodging Programs and Hotel's Eco Friendly Practices "Plant the Seeds for Greener Bottom Lines" [http://www.pineapplehospitality.net/uploads/TR\\_Carticle.pdf](http://www.pineapplehospitality.net/uploads/TR_Carticle.pdf) (February 20, 2008).*
- 3 *Stephen Rushmore, Hotels and Motels, A Guide to Market Analysis, Investment Analysis, and Valuations,pg.171 (Chicago: Appraisal Institute, 1992).*
- 4 *"Green Hotels Association Says, 'Hotels can Save Over \$6.50 a Day per Occupied Guestroom and Help Protect Our Environment,'" Green Hotel Association, <http://www.greenhotels.com/pressrel.htm> (February 20, 2008).*
- 5 *Fairmont Hotels & Resorts Receives Energy & Environment Award, February 22, 2006, [http://www.fairmont.com/en\\_fa/articles/recentnews/fairmonthotelsresortsreceivesenergyenvironmentaward.htm](http://www.fairmont.com/en_fa/articles/recentnews/fairmonthotelsresortsreceivesenergyenvironmentaward.htm) (February 20, 2007).*
- 6 *Environment driving global economy, says Worldwatch Institute, January 10, 2008, <http://www.peopleandplanet.net/doc.php?id=3173> (March 1, 2008)*

January 2008	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2008	2007	2008	2007	2008	2007		
Nova Scotia Area	1,305	43.8%	40.9%	\$96.67	\$86.03	\$42.34	\$35.19	-2.0%	4.9%
Halifax, NS	3,509	44.4%	47.9%	\$111.99	\$111.28	\$49.72	\$53.30	4.3%	-3.2%
Montreal Downtown	9,964	42.8%	42.1%	\$133.90	\$130.57	\$57.31	\$54.97	2.3%	3.9%
Montreal Area	5,620	48.7%	50.8%	\$104.73	\$105.51	\$51.00	\$53.60	2.5%	-1.7%
Quebec City, QC	4,012	42.4%	40.3%	\$110.29	\$108.89	\$46.76	\$43.88	2.4%	7.7%
Quebec Area	5,799	47.3%	45.3%	\$130.50	\$126.55	\$61.73	\$57.33	0.0%	4.5%
Toronto Downtown	13,824	57.1%	55.9%	\$152.59	\$149.66	\$87.13	\$83.66	2.5%	4.8%
Toronto North/East	6,411	51.1%	49.9%	\$118.38	\$115.03	\$60.49	\$57.40	5.6%	8.2%
Toronto Airport/West	8,093	67.0%	65.0%	\$119.73	\$117.61	\$80.22	\$76.45	-1.2%	1.9%
Ottawa, ON	6,541	54.2%	50.2%	\$132.05	\$128.66	\$71.57	\$64.59	-0.3%	7.6%
Ontario East	4,238	42.0%	40.5%	\$98.93	\$96.93	\$41.55	\$39.26	0.8%	4.4%
Windsor/ Ontario SW	3,005	42.9%	43.8%	\$98.91	\$97.57	\$42.43	\$42.74	0.0%	-2.1%
London/ Kitchener	6,902	46.6%	47.9%	\$102.26	\$101.26	\$47.65	\$48.50	6.4%	3.6%
Ontario North/ Thunder Bay	2,203	52.5%	50.2%	\$89.67	\$85.68	\$47.08	\$43.01	0.7%	5.4%
Ontario NC/ Sudbury	4,477	40.1%	40.7%	\$96.03	\$92.08	\$38.51	\$37.48	1.6%	0.1%
Niagara Falls, ON	8,889	27.4%	32.8%	\$112.24	\$115.33	\$30.75	\$37.83	0.7%	-15.9%
Ontario Central	3,674	45.0%	40.7%	\$109.03	\$105.21	\$49.06	\$42.82	1.9%	12.7%
Mississauga, ON	5,528	53.9%	48.2%	\$111.64	\$109.72	\$60.17	\$52.89	-1.8%	9.8%
Winnipeg, MB	3,419	58.7%	52.9%	\$100.86	\$94.32	\$59.20	\$49.90	3.0%	14.4%
Regina/Saskatoon, SK	4,148	61.4%	61.0%	\$108.82	\$98.20	\$66.82	\$59.90	1.8%	2.5%
Calgary, AB	8,439	59.3%	58.6%	\$141.83	\$127.58	\$84.11	\$74.76	0.4%	1.5%
Edmonton, AB	8,184	62.4%	61.4%	\$119.82	\$112.70	\$74.77	\$69.20	2.5%	4.1%
Alberta North Area	2,999	59.9%	68.9%	\$139.45	\$132.78	\$83.53	\$91.49	4.3%	-9.2%
Alberta South Area	9,722	50.5%	51.9%	\$116.87	\$112.08	\$59.02	\$58.17	3.1%	0.4%
Vancouver Downtown	8,400	56.3%	54.7%	\$139.33	\$130.76	\$78.44	\$71.53	1.4%	4.3%
Vancouver/ Burnaby Area	1,914	54.2%	52.8%	\$103.24	\$92.14	\$55.96	\$48.65	0.0%	2.7%
Richmond-Surrey/ East Area	6,007	56.9%	56.1%	\$109.53	\$101.45	\$62.32	\$56.91	2.8%	4.2%
British Columbia Area	5,305	59.0%	59.3%	\$219.29	\$197.31	\$129.38	\$117.00	0.5%	-0.1%
Kamloops/ Kelowna Area	4,570	37.2%	37.4%	\$93.57	\$84.25	\$34.81	\$31.51	0.8%	0.5%
Vancouver Island	4,152	43.4%	43.6%	\$92.45	\$90.82	\$40.12	\$39.60	0.4%	0.0%
<b>Provinces</b>									
Alberta	29,344	55.7%	57.3%	\$118.16	\$111.16	\$65.82	\$63.69	2.7%	-0.2%
British Columbia	30,044	47.5%	47.3%	\$117.09	\$108.15	\$55.62	\$51.15	0.9%	1.4%
Manitoba	4,252	57.6%	50.9%	\$80.91	\$79.49	\$46.60	\$40.46	1.6%	14.9%
New Brunswick	3,697	36.0%	34.4%	\$89.37	\$88.96	\$32.17	\$30.60	2.7%	7.4%
Newfoundland	1,835	45.5%	42.8%	\$102.38	\$99.10	\$46.58	\$42.41	0.0%	6.3%
Nova Scotia	4,814	33.2%	35.5%	\$100.14	\$93.00	\$33.25	\$33.02	0.4%	-6.2%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	73,785	47.1%	45.0%	\$111.30	\$108.95	\$52.42	\$49.03	1.6%	6.3%
Prince Edward Island	949	32.0%	32.0%	\$60.92	\$53.32	\$19.49	\$17.06	0.0%	-0.1%
Quebec	25,395	37.5%	37.4%	\$109.45	\$104.64	\$41.04	\$39.14	1.1%	1.3%
Saskatchewan	5,831	53.0%	50.3%	\$91.06	\$85.14	\$48.26	\$42.83	0.8%	6.2%
Yukon Territory	180	INS	INS	INS	INS	INS	INS	INS	INS
Canada	180,250	45.6%	44.3%	\$109.75	\$105.14	\$50.05	\$46.58	1.4%	4.5%

**DEFINITIONS**

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to [bmacdonald@hvs.com](mailto:bmacdonald@hvs.com)  
Web Site: <http://www.hvs.com>*

*The Canadian Lodging Outlook is a joint publication of Smith Travel Research and HVS, Vancouver and Toronto, Canada. If you wish to reprint any of the articles presented through HVS's website, prior permission from HVS and the respective article's author must be granted. For further information please contact [info@hvs.com](mailto:info@hvs.com). Hospitality Valuation Services, HVS and HVS logo are registered service marks.*



Vancouver Office  
Suite 400 - 145 West 17th Street  
North Vancouver, BC  
Canada BC V7M 3G4  
(604) 988-9743  
(604) 988-4625 fax

Toronto Office  
6 Victoria Street  
Toronto, ON  
Canada M5E 1L4  
(416) 686-2260  
(416) 686-2264 fax

**HVS** is the leading consulting and appraisal firm specializing solely in the hospitality industry. **HVS** personnel have university degrees in Hotel Administration, or actual hotel work experience, and are taking further courses of study to obtain recognized real estate designations. **HVS** has consulted for over 10,000 hotels in 55 countries.

For a complete list of consulting and valuation offices [click here](#).



**SMITH TRAVEL RESEARCH**

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

OFFICE:  
735 E. Main St.,  
Hendersonville, TN 37075  
(615) 824-8664



**HOTEL ASSOCIATION OF CANADA INC.**

The Hotel Association of Canada is a federation of provincial and territorial associations, hotel chains and suppliers with a mandate to represent members nationally and internationally and to provide cost-effective services that stimulate and encourage a free market accommodation industry.

OFFICE:  
Anthony Pollard,  
1206-130 Albert Street,  
Ottawa, Ontario K1P 5G4  
(613) 237-7149