

## Hotel Lawyer on the 'Real Economics' behind the paradigm shift to GREEN hotels

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Business Week just published an eye catching story on 'Little Green Lies' -- why some environmental initiatives may not currently make economic sense, even if others do. But what are the real economics behind GREEN hotel development, conversion and operation? Is this the time to go green? Can you afford to wait?

Here are some solidly documented answers based on substantial, and reliable studies. The answers may surprise you.

### **What does a pragmatist say about this?**

A few friends who know me well as the "ultimately pragmatic" hotel lawyer asked me why I have jumped onto the GREEN bandwagon for hotel development, conversion, and operation. As I have noted in a number of articles on [www.HotelLawBlog.com](http://www.HotelLawBlog.com), the simple answer is that GREEN makes economic sense, especially now. Forget all the "soft" reasons (about being the right thing to do) . . . How can anyone ignore the compelling economics?

Although education is changing reality very rapidly now, there are still too many people in the hotel industry who are living in the past. You can normally spot them muttering about outdated 10-15% cost premiums for building new green hotels, and talking about how impractical conversions are. Yes, they're the ones who are deluding themselves when they talk about how hotel guests don't want the "inconveniences" of staying in a green-operated facility.

Well, my clients have taken note of the USGBC (U.S. Green Building Council) research and other practical experience that shows the costs of going green can be negligible to neutral in new buildings when developers plan to be green from the outset and hire a team of green experts. They also are taking an intelligent look at cost effective equipment, supplies and programs they can implement in existing building to make them healthier and more sustainable.

### **Who has real numbers on the benefits of green building?**

Many like to talk in general terms. I like numbers and specifics, and have found two persuasive sources that document the economics of greening hotels.

The first source is an extensive report issued in 2003 that was commissioned by more than 40 California state agencies and the USGBC, looking back largely to buildings constructed in the 1990s. This authoritative source has been further updated by the USGBC, which reports that as of 2007 the premium cost for LEED-certified\* projects, if any, is only 1% to 2%, and declining as people gain more experience. Any premium in costs is typically recovered through rebates, incentives and long-term cost savings, which have often provided a hard economic "payback" in 12 to 24 months.

In fact, LEED-certified buildings, typically continue to save:

30-50% in energy usage

35% in carbon emissions

40% in water emissions

70% in solid waste

Energy Star puts the energy savings into terms hoteliers understand. Using the USGBC's figures, with a 30-50% energy savings, a limited service hotel would achieve hard economic savings which would be the equivalent of increasing average daily rate (ADR) by \$1.80-3.00, and a full service hotel would have the equivalent benefit of increasing ADR by \$4.00-6.75.

With predicted shortage of energy, water and sites for waste disposal, these savings will only become more dramatic, and that will be pushed along by various legislative initiatives now pending or already adopted in more than 40 states.

### **If GREEN Hotels are so compelling, why isn't "smart money" doing it?**

The "smart money" is doing it! I have predicted that 2007 will go down as the "Tipping Point" in LEED-certified building and conversion for hotels.

In the real world, for example, Marty Collins, CEO of Gatehouse Capital, is extremely successful. He is widely known as the biggest developer and owner of W hotels in the United States. He actually does care about the environment, but that isn't the main reason he decided to go for LEED certification for his current development, the W Hotel and Residences in West Hollywood. When you have an investment of several hundred million dollars, you look first to the economics. Marty sees the cost of meeting LEED certification standards as being "negligible" (less than 1% of his project, if that). You also look to the future value of your property, and the fact is that for many decades to come, his green property will offer hotel guests, workers and residential owners a healthier environment for living and working -- with significantly lower costs for energy, water, waste and carbon emissions.

But Marty's not alone. How about the developers of the largest hotel project in the world? Does anyone really believe that MGM would ignore compelling economics in building the City Center, a project that will cost nearly \$8 billion? After thoroughly studying the matter, MGM decided that it was "smart business" and in the interests of its shareholders to go green. So MGM has determined that it will make all of its new buildings green, convert existing buildings and operate all of them on a more sustainable basis. Don't write this off as a "Vegas thing." Its not!

Finally, take the high profile example of the "genius" who invented the cash machine of the W Hotel concept and brand. Why do you think Barry Sternlicht of Starwood Capital launched "1" Hotel and Residences more than a year ago (on October 18, 2006)? You may have noticed that the marketing for this hot new brand emphasizes that it will be the first luxury, eco-friendly global hotel brand. The concept promises to combine green construction and operating principles with impeccable service and luxurious comfort. "1" will demonstrate that green principles can coexist and actually enhance a luxury hospitality experience and healthy residential lifestyle.

And with Starwood Capital owning or controlling the first five "1" hotels, and with their plans to have 15 hotels signed or under construction within 24 months, you can bet the hard economics are a cornerstone of the brand -- right up there with sustainability.

Where do we go from here?

The hotel world is shifting into the green paradigm very quickly. It's time to join those of us who have accepted that reality now. One way to get up to speed is to sign up for the UNLV-JMBM Hotel Developers Conference to be held March 11, 2008 at the Green Valley Ranch in Las Vegas. This entire conference will focus on green hotel development, conversion and operation. It is the only hotel summit designed to provide senior executives with a comprehensive program that examines both the compelling economic benefits as well as some of the daunting practical challenges. For more information, to register or to participate in sponsoring the conference, or to be an exhibitor, go to: [www.jmbm.com/thdc](http://www.jmbm.com/thdc).

This is Jim Butler, author of [www.HotelLawBlog.com](http://www.HotelLawBlog.com) and hotel lawyer, signing off. We've done more than \$40 billion of hotel transactions and more than 100 hotel mixed-used deals in the last 5 years alone. Who's your hotel lawyer?

*\* LEED stands for "Leadership in Energy and Environmental Design." To be LEED-certified is to meet the requirements of the Green Building Rating System(TM), a nationally accepted benchmark for the design, construction, and operation of high performance green buildings.*

#### **About the Author**



Jim Butler is recognized as one of the top hotel lawyers in the world. He devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM's Global Hospitality Group(R) -- a team of 50 seasoned professionals with more than \$40 billion of hotel transactional experience, involving more than 1,000 properties located around the globe. In the last 5 years alone, they have brought their practical advice to more than 80 "hotel-enhanced mixed-use" projects, a term Jim coined to fill a void in industry lexicon. This term describes one of the hottest developments in real estate-where hotels work together with shopping center, residential, office, retail, spa and sports facility components to mutually enhance the entire project's excitement and success.

Jim and his team are more than "just" great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them. They are a major gateway of hotel finance, facilitating the flow of capital with their legal skill, hospitality industry knowledge and ability to find the right "fit" for all parts of the capital stack. Because they are part of the very fabric of the hotel industry, they are able to help clients identify key business goals, assemble the right team, strategize the approach to optimize value and then get the deal done.

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