Tourism Accommodation Australia
A division of the AHA

Address: Level 15, Hudson House,
131 Macquarie Street,
Sydney, NSW 2000
Telephone: +61 2 8218 1847

8 March 2019

Mr Phil Manners
Director
The Centre for International Economics
level 7/8 Spring St,
Sydney NSW 2022

Email: pmanners@thecie.com.au
hfisher@thecie.com.au

cc: CBDFSecretariat@environment.gov.au

Dear Mr Manners,

Thank you for the opportunity for the accommodation industry to input specifically into the question of whether the Commercial Building Disclosure Program be expanded to include hotels and why.

Tourism Accommodation Australia (TAA), a division of the AHA, represents the needs and interests of the major hotels, motels and serviced apartments in Australia's accommodation sector. It is in this context that we will be responding to questions 16 – 27 within the Issues Paper.

Overview of the Commercial Accommodation Sector

As acknowledged both in the first meeting of the Reference Group, in subsequent state consultations and in the CBD Expansion Feasibility Report, the accommodation sector is diverse, with a mix of different types of stock, different levels of product and different ownership and management structures.

Table 1. Mix of supply in Australia in 2018

Accommodation Product	No. Establishments	No. rooms
Hotels & Resorts	1,677	143,927
Motels, Private Hotels, Guest Houses	2,121	60,006
Serviced Apartments	283	71,065
Total	**4,081**	**274,998**

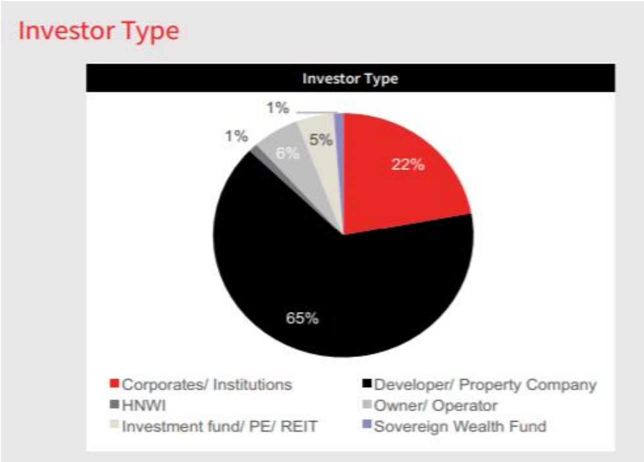
Source: Australian Accommodation Monitor 2018

Table 2. Mix of Quality ratings in Australia in 2018

Product	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Luxury & Upper Upscale	154	91	229	14	65	17	15	18
Upscale & Upper Midscale	413	310	592	66	147	47	25	35
Midscale & Economy	1025	518	719	174	131	104	20	44

Source: Australian Accommodation Monitor 2018

Figure 3. Ownership Structures in Asia-Pacific



Source: JLL Asia-Pacific Trends & Insights 2018

Key to the questions raised by CIE is how the CBD program, which mandates a NABERS rating, can be applied to the office sector. As demonstrated by the data above, commercial accommodation is very different to office buildings in a range of ways:

- The sector has a tripartite of stakeholders being the investor, operator and customer;

- Hotels have very few institutional owners. Many office buildings are owned by Institutions and as such are benchmarked globally.

- As outlined in the CIE's *CBD Expansion Feasibility Final Report*, unlike office buildings, sales turnover of hotels is only around 1%, therefore a sustainability rating will do little to incentivise owners on investment returns.

- Hotels are high risk investments with extensive regulatory compliance measures, high operating costs and low margins. Governments have not acted to control the growth of the 'sharing economy' which has low barriers to entry and minimal compliance costs. We would be concerned that adding more barriers to investing in hotels is only going to increase the disincentive to invest in regulated commercial accommodation, which is a major contributor to the economy.

- The accommodation sector is diverse with a range of operations that are largely 24 hours. Operations vary considerably – number of workers[1]; number of rooms and thus visitors; guest expectations; types of operations – accommodation only; accommodation with restaurants and/or conference facilities and/or spa – all have different levels of impact on energy usage, irrespective of energy use initiatives put in place.

[1] TAA NSW Labour Trends in Accommodation Survey 2019

With respect to NABERS ratings:

- Hotel investors are mainly international and are not familiar with NABERS. Larger, international hotel brands in Australia have globally recognised independent certification in place that is mandated by their head offices. Examples include Green-Key- http://www.green-key.org/ and Earth Check - https://earthcheck.org/.
- NABERS needs to improve its capability for hotels as our understanding is that it does not take into account a range of operational differences.
- NABERS has a star rating system which is different to a hotel star rating system – especially if mandated to display publically. This has the potential to confuse customers (local and international guests) who themselves will not be familiar with NABERS.
- Feedback from the forums is that the commercial sector had some concerns with NABERS and how they operate. For example, the Tenancy Lighting Assessment (TLA) is a main point of contention for commercial building managers/operators which is to date not resolved by NABERS.
- The cost of a NABERS rating is $6,000 plus per hotel ($10,000 if an Action Plan is required), plus there are ongoing costs associated with these systems which need to be justified to owners as providing a return on investment. If the hotel is not investing in projects each year there will be little change in their ratings and little justification for continuing to invest.

Market Barriers

As outlined in CIE's Literature Review 'the impact of energy rating schemes should be assessed by looking at end results: are market participants changing their behaviour? Is energy being saved? Are higher performing buildings being rewarded in the market by higher rents, occupancy rates or valuations?'

Principal-Agent Failures[2]

As outlined above Hotels operate with a variety of business models, including:
- Strata owned units with management letting rights;
- Owned with a management contract;
- Leased – typically for periods in excess of 10 years;
- Owned and managed;
- Owner or third party manager operated with franchise agreement.

In most instances:
- Management contracts are of shorter duration (5-15 years) and energy costs and investments are largely the responsibility of the owner;
- Leased hotels pass responsibility for investment and energy cost payment to the lessee.

[2] CBD Expansion Facility Final Report

Therefore, the costs and benefits of energy efficiency are largely with the owner. Both feedback from hotels and 'the evidence from a range of energy audits conducted by Energy Action'[3] highlights that capital for upgrades are prioritised towards guest-facing facilities ahead of investment in hotel plant and equipment.

Furthermore as the CBD Expansion Facility report points out, 'although leases may be 10-15 years, plant life is longer than this and lessees have little motivation to make long term investments that they may not see the full value from'. Owners are focussed on profit and initiatives that provide a strong return on investment.

Energy Ratings are unlikely to maximise sale price

Unlike office buildings, disclosure of ratings is unlikely to impact the decisions of potential buyers because:

1. Hotels have very few institutional owners. Many office buildings are owned by Institutions and are part of Global Real Estate Sustainability Benchmark (GRESB). GRESB assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide thus providing a quantifiable incentive to invest in office buildings that have high sustainability ratings.

2. Sales turnover is low therefore a sustainability rating will do little to incentivise owners on investment returns.

3. Owners are focussed on profit and initiatives that provide a strong immediate return on investment. Most hotel owners are either foreign or short term owners, so long term planning to meet ratings is currently not a priority. They want to maximise profitability to increase value/sale price.

Energy Ratings currently have minimal impact on guest choice

Hospitality is a competitive marketplace and sustainability is now increasingly mainstream – partly because social responsibility and the environment are becoming more of a focus area within the corporate world.

It is acknowledged that the sector, with 24 hour operations, is a significant user of energy and a generator of waste. As a result many of the hotels have embraced energy saving initiatives such as lighting retrofits and have undertaken waste recycling and water saving programs.

Most of the larger hotel operators (not serviced apartments) have some form of 'global chain related benchmarking' (Green Key, Earth Check, Green Engage), that motivates them to do their best from an environmental perspective. NABERS is not widely used as an energy rating.

[3] CBD Expansion Facility Final Report

However, while the suggestion is that the availability of ratings impacts guest choice, feedback points to only two main areas of impact:

1. Where energy ratings are connected to securing government and corporate contracts;
2. Where international business events/incentives make energy efficiency one of their key criteria in selection of a hotel.

Market Benefits

We understand that a large part of the rationale behind mandated energy ratings versus voluntary energy ratings, is that it is more likely to encourage buildings owners to ensure that the building has a good energy rating.

Most hotel management companies are seeking to reduce energy costs and, within budgets, they are implementing a range of energy saving measures. These benefit management by reducing operating expenses thus increasing Gross Operating Profit. However as pointed out above, hotels are capital intensive investments and funding is more likely to be prioritised to enhancing the guest experience.

As significant costs and regulatory barriers currently exist for owners to invest, government needs to be careful not to add further regulatory barriers without some offset. Government also needs to be careful not to advantage one part of the industry versus another.

Recommendations and Conclusion

As outlined above accommodation providers have a range of concerns on government mandating an energy rating regime in our sector:

- There needs to be a clearer articulation of the return on investment for owners;
- It adds to investment costs, but currently is not significantly in the consideration set for guests, nor does it command a price premium;
- Any rating scheme would be difficult to apply consistently across the sector thus creating an unlevel playing field;
- In a number of cases, it conflicts with current energy ratings systems applied by brands globally; and
- Conflicts with the star rating system for hotels.

Offsetting this is the fact that a range of management companies, facing significantly increased energy costs, have been investing in a number of energy efficiency measures. The key question is to what extent would a mandated ratings system benefit the industry and result in significant improvements in energy efficiency across the industry?

If government was to mandate we would recommend the following:

- Our preference would be that we provide the option for providers to be accredited by a recognised external supplier (i.e. do not mandate a government agency) as many hotel chains already have a globally mandated supplier.

Tourism Accommodation Australia
A division of the AHA

- To address market failure on the lack of 'return on investment' for owners, costs of the ratings system should be subsidised by government in the first year with ongoing subsidised funding in later years. In addition an evidence base will need to be built on energy efficiency improvements that have resulted, to assist hotels in justifying further investment.

- In line with this it will be important that energy rating assessments are carried out every three years, not annually. This enables the assessment to identify works that have been done over a period, as most hotels/serviced apartments don't carry out refurbishments every year. This is common in other areas of compliance – for example, Risk Assessments are done by most insurance companies every two to three years.

- We would also recommend addressing the market failure around linking energy efficiency with customer choice. For example this could be by mandating that government accommodation procurement is linked to ratings or providing access to grants for initiatives that assist in saving energy by either installing new equipment or by reviewing and improving their energy management.

In conclusion we appreciate the government's consultation on the proposed implementation of mandated energy ratings for the accommodation sector.

While the industry is very conscious of the need to introduce energy efficiency measures, currently there are several areas of market failure outlined in our submission that would need to be addressed if this was to proceed. In particular we are concerned at additional barriers to investment and the creation of an un-level playing field.

We look forward to further consultations with government.

Yours Sincerely,

CAROL GIUSEPPI
Tourism Accommodation Australia