LOOKING TO THE FUTURE
ESG, COVID-19 & The Australia Hotel Sector

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Introduction

The COVID-19 pandemic has had a huge impact on our economies, health systems, and on businesses large and small. In February and March of 2020, much of the world came to a standstill as COVID-19 spread across countries, crippling some of the world’s greatest cities – with the impacts not limited to one sector but felt across nearly all.

With many industries and sectors around the globe halted, the hospitality sector has arguably been one hit hardest due to strict limitations to non-essential travel and to group gatherings, as social distancing measures continued to be enforced. In Australia, the month of March 2020 marked a period of change like no other, as hotels were announced to cease trading as per the norm. By April 2020, hotels across Australia temporarily stopped operations, while many changed their operating models and opened their doors as quarantine hubs, supporting the Australian Government by offering “self-isolation” accommodation for people returning to Australia.

With such a large focus on battling out COVID-19 together with subsequent reductions in resources, it is understandable that many companies are focusing on the here and now, and how to get business back to normal – whatever the new normal may be. As Australia faces overcoming the COVID-19 pandemic, there is another key crisis that should not be overshadowed – that is addressing climate change.

Pro-invest Group is a locally established integrated private equity real estate business combining investment, development, repositioning and operational capabilities. Pro-invest’s structure assists in controlling the entire value chain, allowing for effective risk mitigation and return optimisation in the hospitality, commercial and retail space. ESG is incorporated into the business operations and throughout the assets’ lifecycles.

NABERS (National Australian Built Environmental Rating System) is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes.

Put simply, NABERS measures the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy and its impact on the environment.

GRESB assesses and benchmarks the ESG performance of real assets, providing standardized and validated data to the capital markets.

The Assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real asset investments and are aligned with international reporting frameworks.

ANREV is the Asian Association for Investors in Non-listed Real Estate Vehicles – Asia Pacific’s leading platform for knowledge sharing on the non-listed real estate funds sector.

ANREV has the goal to improve transparency, professionalism and best practices across the industry, striving to make non-listed real estate funds more attractive and accessible to investors.
Responding to COVID-19: Government, Tourism & Hospitality

Globally, governments have poured billions of funds into the system in the form of immediate economic stimulus packages to address the dire jolts and impacts produced by the COVID-19 pandemic.

With respect to Australia, the government has implemented a A$260 billion economic support package in response to the implications caused by COVID-19. This stimulus package has primarily been focused on keeping people employed and ensuring small and medium sized businesses can continue operating, while stimulating the health system.

“The pandemic represents a rare but narrow window of opportunity to reflect, reimagine, and reset our world.”

– Professor Klaus Schwab, Founder & Executive Chairman, World Economic Forum

As part of the Australian government’s response, tourism and hospitality supporting measures have been implemented, such as the JobKeeper Payment which effectively assists businesses impacted by COVID-19 to access a subsidy from the Australian government to continue paying employees. Impacted employers can claim a fortnightly payment of A$1,500 per eligible employee from the 30th March 2020, for a maximum period of six months.

For the hospitality sector, the JobKeeper Payment assisted greatly due to many hotels having undergone closure following occupancies declining considerably because of social distancing measures. Further, the government has worked alongside the industry in transforming hotels into ‘quarantine’ centres, providing some flow of incoming business for operators.

From a travel perspective, with Australia and New Zealand having flattened their respective COVID-19 case curves, the two countries are in discussions to set up a ‘Trans-Tasman’ travel bubble. The result of such an arrangement would be the easing of restrictions on travel between Australia and New Zealand, aiding in bringing some well anticipated flow of activity for the hospitality sector.

Currently, policies have been framed to focus on the protection of people most immediately affected, while protocols to safely re-open economic sectors are being introduced in three core phases. The first focuses on connecting families and friends once again, while the second looks to build on slightly larger gatherings and more businesses reopening. The third phase will look to commit to reopening businesses and the community with minimal restrictions.

On a short-term view, it is quite clear how the aftermaths of COVID-19 are being mitigated and subsequent industries are being looked after. From a long-term perspective however, it is unclear how those stimulus packages will be dispersed over time. It is well known that the impacts of COVID-19 will continue to be felt deeply and for quite some time.

Looking ahead to longer-term commitments and government responses required, policy actions are expected to remain focused on further offsetting the economic downturn. Although it is noted that there also is an expectation for these efforts to support just and sustainable recovery plans, as stressed by institutional investors.¹

“Never let a good crisis go to waste”

– Winston Churchill, Former Prime Minister of the UK

Governments are expected to turn their attention to longer-term environmental and social interventions – beyond those seen during the COVID-19 crisis, as the growing scale of such challenges emerges. This is to ensure that money flows towards sustainable

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solutions and ensure Australia is more resilient to future shocks and stresses on health and well-being, the natural environment and the economy.2

“There’s a risk that countries and companies will revert back to what they know works. Shovel-ready coal or fossil fuel projects that were halted in recent years on environmental concerns could easily be reactivated. That’s coming out of one health crisis and trying to boost the economy by leading us into another health crisis in terms of air pollution and climate change.”

– Helen Mountford, Vice President for Climate & Economics, World Resources Institute

Naturally, once the economy starts its road to recovery, increased air pollution will take place, rises in carbon emissions will occur and climate change will be accelerated once again to much more dangerous levels. These are some of the risks that should be considered as the economy pushes back to normality. In addition, recovery plans that exacerbate climate change would expose investors and national economies to escalating financial, health and social risks in the coming years. Hence, there is the opportunity to change the way the Australian government once handled things to “paint” a greener and more sustainable future for post-COVID-19.

“It should be a joint stakeholder effort to design and implement environmental and social solutions that benefit customers, businesses, communities and of course, the broader economy as a result.”

– Ruben Langbroek, Head of Asia Pacific, GRESB

This provides the opportunity for governments, investors and businesses to consider the future and navigate towards “COVID-safe” properties.

Driving Hotels of the Future3

There is strong potential for the COVID-19 pandemic to catalyse a durable shift towards an inclusive, low-carbon and climate resilient Australian economy and built environment. GRESB advised that, with effective and just recovery plans and policies in place, institutional investments should be channelled to accelerate the transition to sustainable real assets. This should support actions in the real estate sector to transition towards green supply chains, ensure stakeholder health and well-being, and in the instance for hotel operators, the move to more sustainable commerce models.

Of late, hotel operators, owners and managers have been strategizing how to improve their offering to ensure guests feel confident in the level of hygiene at their hotel properties.

“A large number of fund managers and asset owners are focused on containing the virus. What will be interesting to consider as well would be whether these considerations are being used to improve the health and well-being of staff and other stakeholders.”

– Amelie Delaunay, Director of Research & Professional Standards, ANREV

In addition to ramping up sanitisation and cleaning efforts, ensuring masks are worn by all employees and altering how business is being conducted within the new social norms, many are looking to the future and considering efforts such as the following.

Reception:

Hotel receptions of the future will most likely involve reduced staff-to-guest contact, touchless transactions, front desk screens with ample sanitisation stations for guests and staff.

2 To read more, please see: https://cdn2.hubspot.net/hubfs/2095495/_Communications/7%20point%20plan/Property%20Council_7%20Point%20Plan.pdf

3 Please note the imagery in this section have been sourced from CNN (07.05.2020) and PixaBay (22.05.2020).
to use, sanitized key cards and paperless check-in/out.

Public Spaces & Facilities:
Gone are the days of crowded lifts, with hoteliers forecasting reduced capacity per lift which may surround the figure of maybe four. Logically, such a change in operation will result in the increase of hotel lifts going up and down, translating in increased energy usage.

Hence, the drive for kinetic energy lifts which recycle energy and are better for the environment are favoured here, advocates Pro-invest, which has ensured such technologies were deployed at its most recently opened asset, Holiday Inn Express Melbourne Southbank which spans across 16 levels of hotel.

Further, deep cleaning of high touch surfaces, coupled with the social distancing elements, ‘last cleaned’ charts, with revised usage practices for communal facilities such as fitness centres and lounges will no doubt arise. Further measures such as the removal of brochure racks and communal pens are too a consideration for the “new” normal.

The Guest Room:
Standard practices for guest rooms will no doubt change drastically to ensure the possibility of a COVID-19 case spread is reduced to the near-zero likelihood. Visible verifications of sanitized items such as glassware and remote controls will be needed, while there may well be a reduction of in-room furnishings and high-touch items such as TV remotes.

Additionally, new laundry servicing protocols will be introduced, while the rise in electrostatic technology is expected to gain traction. Within the context of ESG, it is also now increasingly important that we understand for example which high quality cleaning products suitable for eradicating any COVID-19 related germs are biodegradable and for instance, face masks used by hotel staff are not adding to the waste load.

Food & Beverage:
Changes in how food and beverages are served and consumed at hotels will need to be altered and improved to ensure guest confidence in the hygiene of the property is maintained.

“What we knew to be business as usual – pre-COVID-19 – is no longer going to be the case post-COVID-19; hotels will need to adapt significantly. If you just think about all the services hotels are generally providing, many of them we just won’t be able to do in a similar manner.”

– Dr. Sabine Schaffer, Managing Partner, Pro-Invest Group

New standards and service approaches to buffets, banquets, room-service and catering services will see changes in operating models. Possibilities include “knock and drop” practices whereby staff bring food items to the guest room, knock on the door and leave the items before guests open their door. Alternatively, partnering with external food providers to deliver to the hotel’s lobby for the guest to come and pick up, providing a “click and collect” service to reduce contact is another option.
The Hospitality Sector: All Doom & Gloom?

With the short and long-term recovery agendas in mind by government, the business sector and its stakeholders, such as building owners and asset operators need to get ready to provide COVID safe properties.

For hotels, navigating the impact on working conditions such as new cleaning and hygiene protocols, limited gatherings, and changed guest expectations are top of mind. These are very much short-term responses, as the economy starts its revival, with hotel operators and owners to keep their eyes on the long-term picture which should also consider how COVID-19 may increasingly cross over with ESG issues. These could include areas such as what operational changes addressing health, safety and well-being will continue or be enhanced? Other queries may surround how to best prepare for and recover from acute future shocks, chronic stressors, coupled with how to best facilitate the transition to net zero emissions?

Naturally, hospitality has been significantly disrupted by COVID-19. However, it is important to note that this impact will not necessarily result in a complete structural change but rather, that COVID-19 has resulted in more or less a temporary bump-in-the-road. Hotels will get back out there and continue in rebuilding their strength.

“In the middle of difficulty lies opportunity.”
– Albert Einstein, Theoretical Physicist

The Australian and New Zealand economies have started the recovery phase after being impacted by COVID-19. Notably, Australia and New Zealand are recovering far quicker than a lot of other markets and hence, hotel performance is forecasted to get back to normal within the next 12-18 months.

The desire to travel will continue. If anything, the desire to travel and explore will ramp up even more, as globally, with social distancing measures in place, people are spending much of their time cooped up at home.

From Pro-invest Group’s perspective, it is looking at the current COVID-19 situation in a much more optimistic light, with Pro-invest identifying several opportunities. For instance, during much of Q1 and Q2 of 2020, Pro-invest Group continued to allocate efforts towards ESG reporting to its investors via the annual GRESB Real Estate Assessment, meanwhile also completing a NABERS Energy assessment for its Newcastle hotel which produced a celebratory milestone for the Group in achieving a 5-star NABERS Energy rating in June 2020. Holiday Inn Express Newcastle’s 5-star NABERS Energy rating is the most recent NABERS certification achieved by Pro-invest Group, with the Group also having been awarded several 4.5-star NABERS ratings across Energy and Water for its hotels in Sydney Macquarie Park, Brisbane and Adelaide.

Further, for Pro-invest Group, COVID-19 is anticipated to present strong market opportunities for existing hotels, and new development and redevelopment prospects with many hotel owners coming under financial stress. There are several distressed opportunities becoming available in the market and the Pro-invest Group platform allows investors to benefit from that.

“All in all, I think it’s certainly difficult times we’re in. But there is a clear way ahead and I think for those parties who try to be forward thinking, now will turn out to be one of the best investment periods – as was the case just after the GFC and in the case of SARS.”
– Dr. Sabine Schaffer, Managing Partner of Pro-invest Group

Parties who invested through SARS and the GFC with hands-on management with deep industry experience made some of the best investments in hindsight. From a sustainability perspective, what is notable when measuring
consumptions and performance via environmental platforms and rating systems such as NABERS – which is unique to Australia - is the year-on-year energy reductions that occur in short periods of time. A lot of countries and sectors are improving but this is something quite unique to Australia.

There is a link between monitoring environmental initiatives plus setting targets and a reduction in consumption. For instance, based on a sample of c. 50-60 real estate assets from various sectors, those assets which were actively managed had a much better consumption outcome than those who were “passively” managed during the COVID-19 occupancy reduction period.

Figure 1: COVID-19 Impacts on the Ground, at the Building Level: Active Management

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Figure 2: COVID-19 Impacts on the Ground, at the Building Level: Limited Adjustment Practices

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To note, these assets were still open, but initiatives incorporated to reduce consumption consisted of shutting down an area of that building. For instance, with a hotel, it may be shutting down an entire wing and turning off all the lights, heating, and cooling. In the case of large corporate office building with limited occupancy from personnel, shutting down several floors to only accommodate those that are in need will save electricity and gas consumption.

A purposefully orientated look at what companies can do to save utility consumption is necessary. This is not energy efficiency or energy investment; this is just operational management.

Data shows that buildings that did not spend much time during the COVID-19 period in managing the consumption of their buildings or did not have much resources to address the management of consumption, saw starkly high energy consumptions relative to those that did in fact put measures in place to minimise their consumption.

“*In a really concrete way, it shows how important management is to energy efficiency and sustainability. It is not just about equipment, it’s also about the ability to respond and run the building as sustainably as you can.*”

- Carlos Flores, Director, NABERS

With COVID-19 and its subsequent events being such a unique scenario that the real estate sectors have had to deal with, it should not be forgotten that buildings operate at part occupancy most of the time. COVID-19 has merely resulted in these assets to drop their occupancies down further.

Most frequently through seasonality, for instance within hotels, occupancy can drop to the 20 percent range. But most often, the thought of how to manage such occupancy levels for the betterment of energy efficiency is not considered. But now with COVID-19, it has played out to be much like a crash course in forcing many operators and owners to think about, one; what they are doing during COVID-19, and two; how they can adapt their knowledge and processes for the long-term when seasonal lows occur.

With COVID-19, NABERS insights demonstrate that companies are ever more conscious of
sustainable finance right now. Those who are entering the market over the next 12 months may experience that access to finance may be quite constrained and there will be a lot more competition.

Subsequently, a lot of companies are noting that their demonstratable interest in sustainability will provide them with a greater competitive edge in a particularly constrained market.

**Investors Look to Sustainable Investments Amid COVID-19 Recovery**

During this time, it is more important than ever that investors engage with their investments to understand how they may be able to support them. Investors are conscious of the need to allow companies time and capacity to manage the crisis. At the same time, the pandemic is exacerbating existing ESG challenges such as the climate crisis, social inequality, and biodiversity loss; reassessing core assumptions about what makes a good investment, and increasing investor demand for ESG reporting and benchmarking.

As a result, investors are engaging with those investments that are failing in their crisis management. The intention is to understand the challenges building owners and hotel operators are facing, coupled with the responses to these challenges, and how this might impact their investment portfolio.

**“Climate risk is investment risk”**

- Larry Fink, Chairman & CEO of BlackRock

Institutional investors typically take a long-term view of value and returns and are therefore well placed to assist governments to devise multi-year recovery efforts. With trillions of dollars in capital under their management, investors will be critical to accelerating the recovery as it will require the efficient and equitable deployment of huge amounts of capital. With this in mind, c. A$28 billion worth of capital is already earmarked by Industry Super Australia to invest in real assets to generate jobs and assist in cushioning the economic hit from the pandemic.

A further shift towards impact investing is also expected, as institutional investors and the like are anticipated to increasingly focus on investments that provide solutions and generate positive environmental and social outcomes.

**“The current pandemic serves as a harsh reminder that ignoring risks and failing to plan and act decisively on mitigation can carry enormous human and economic costs.”**

– Fiona Reynolds, CEO, PRI

Evidence of climate risk is compelling investors to re-evaluate core assumptions regarding modern finance. Investors are increasingly recognising that climate risk poses investment risk. While government must lead the way to a low-carbon world, investors have a fiduciary responsibility to ask good questions about environmental and social risk and resilience. In turn, real asset management companies have a responsibility to understand such risks and effectively communicate management actions to internal and external stakeholders.

Moving forward, investors will be challenged to determine not only the presence of management practices, but their quality and effectiveness as well. More than ever, investors will expect their real estate investments to demonstrate high standards of sustainability and transparency, aligned with the green recovery.

**Conclusion**

With COVID-19 being the current crisis faced globally by several industries and sectors, the hospitality industry has been impacted most severely due to its operating structure. Nevertheless, there is a light at the end of the tunnel with collaborated efforts from several parties in mitigating the impacts of COVID-19 via, for instance, government stimulus.
packages, green investments by institutional investors, and changing operating models by hotel operators.

There is however a further expectation that, as the various initiatives such as the Trans-Tasman travel bubble move closer towards reality in an effort to revitalise the economy, governments, investors, building owners and hotel operators look for long-term solutions that factor in addressing environmental and social issues, including climate change.

The current pandemic provides a great opportunity to transition more quickly. This is a moment when the industry can implement measures to help boost the economy, create jobs, and build resilience.

Business as usual simply will not be enough. Instead, linking social issues to climate disruption and investments in resilience to safeguard the health of all industry stakeholders is likely to surface as the number one priority post COVID-19. The opportunity for the hospitality sector to address this has never been greater.