

Sustainability as an Imperative and Opportunity for Hospitality and Entertainment

By Jared Eigerman
Goulston & Storrs
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Sustainability as an Imperative

Once motivated by altruism, sustainable development and building operation are increasingly encouraged by governments and market conditions, if not mandated by law. The reduction of greenhouse gas emissions to mitigate climate change is becoming a paramount policy concern at the local, state and federal levels.

Market Standards

The real estate industry has come to embrace “green building,” meaning construction and operation that minimizes environmental impact and is resource-efficient. The U.S. Green Building Council’s (USGBC’s) Leadership in Energy and Environmental Design (LEED) Green Building Rating System has become the de facto market standard. Some hospitality and entertainment concerns have developed facilities certified under the LEED system, but there is no current or proposed LEED standard specific to those uses. The U.S. Environmental Protection Agency’s ENERGY STAR program also enjoys significant and broadening market acceptance, to evaluate relative energy efficiency within asset classes, including hospitality and entertainment facilities.

Regulatory Standards

Not always in sync with market conditions, the regulatory landscape is changing rapidly regarding all aspects of sustainability. LEED is increasingly required by local ordinance, or to qualify for government requests for proposals, and grant programs often favor or require sustainability. Moreover, many states have tightened their energy codes for new construction and major renovations. New York City has introduced legislation that would require existing commercial buildings over 50,000 sq. ft. to perform energy audits regularly, and to perform upgrades that are cost-effective over a five-year period.

Sustainability as an Opportunity

Sustainability may present attractive opportunities to the hospitality and entertainment sector, while taking into account their unique challenges, often including:

- Amenities, including food and beverage service and convention facilities
- Regulatory overlays specific to lodging, food and beverage, and conventions
- Operating hours and seasons different from other sectors
- Transient guest populations
- Transportation mode splits and peak periods different from other sectors

Energy Efficiency

The EPA estimates that reducing energy use by just 10% across the hospitality industry alone would save approximately \$285 million each year, and boost average daily rate (ADR) by \$0.83 for a typical limited-service hotel and \$2.45 for a typical full-service hotel. To improve energy efficiency, hotels, restaurants, convention centers and other entertainment concerns may hire specialized consultants to retrofit facilities and/or retrain operations staff. Another common model is to hire an Energy Service Company (ESCO) to guarantee a specified degree of improvement.

Distributed Generation

Due to regulatory and market changes, large facility owners and managers can feasibly generate a larger share of their own energy on site from alternative energy sources. This requires interconnection agreements with local utilities to allow on-site facilities to interface with the grid, procurement contracts for equipment and consultant services, and/or power purchase agreements with on-site energy suppliers.

Reducing "First Costs"

Available government and utility-based incentives for green building vary based on specific location and issues with local regulated utilities. New incentive programs are being introduced monthly, including tax-exempt bonds, grants, rebates and loan guarantees, Renewable Energy Credits (RECs), and tax credits and deductions.

G&S Services

The hospitality and entertainment industry must draw upon many disciplines to decide whether it makes sense to retrofit facilities, adjust operations, and change the way new development is done. Our years of experience in real estate development, and our extensive network of industry relationships, enable us to take a leading role in assisting our clients to select and tailor appropriate measures to achieve their strategic goals.

For questions regarding the information contained in this G&S Advisory, please contact your usual Goulston & Storrs attorney or:

Kenneth E. MacKenzie

(617) 574-4067
kmackenzie@goulstonstorrs.com

Harold Stahler

(617) 574-4101
hstahler@goulstonstorrs.com

This G&S Advisory was authored by Jared Eigerman, a member of the firm's Real Estate group.

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