

How hotels can address growing climate risks

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What's the Deal By Daniel Lesser

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(The views and opinions expressed in this blog are strictly those of the author.)

For good reason, conversation on climate change and its risks has become mainstream across various industries and sectors. "World scientists' warning of a climate emergency," published recently in the Oxford Academic journal BioScience, states: "Scientists have a moral obligation to clearly warn humanity of any catastrophic threat and to 'tell it like it is.' On the basis of this obligation and the graphical indicators presented below, we declare, with more than 11,000 scientist signatories from around the world, clearly and unequivocally that planet Earth is facing a climate emergency."

In 2018 alone, there were 14 separate natural weather and climate disasters in the United States, where the overall cost of damage reached or exceeded US\$1 billion. According to the National Oceanic and Atmospheric Administration's National Center for Environmental Information, since 2016 there have been 45 such events, and each U.S. state has experienced at least one billion-dollar disaster since 1980. These exclude numerous other weather and climate-related natural disasters where the costs of damage per event were lower than US\$1 billion.

Climate change is affecting countries globally on an unprecedented scale, with the frequency of adversities increasing. Meanwhile, other threats, such as rising sea levels, higher average temperatures, soil erosion and changing weather patterns, remain. The United Nations has rightly called climate change "the defining issue" of our time.

The lodging industry is particularly vulnerable to the multi-pronged disruptive impact of climate risk because:

- The industry has massive fixed real estate (hotels) in high-risk areas of climate change impact such as waterfront/coastal locations.
- Extreme weather events tend to diminish real estate value and even result in total loss of property. In 2005, Hurricane Katrina caused the closure of more than 250 hotels in Louisiana, Mississippi and Alabama, and delayed several development projects in the pipeline at that time. The 250-room Hilton Sonoma Wine Country and the 124-room luxury Fountaingrove Inn, both in Santa Rosa, California, were destroyed during the 2017 Tubbs wildfire.

- Shifting weather patterns and inclement climate conditions negatively impact economic activity, travel, the sustainability of area attractions, customer perception of destinations and in turn, tourism demand.
- Erratic weather conditions increase insurance costs, disrupt the supply of labor, raw materials and utilities, raising operating costs and repair and replacement expenses.

While most hotel companies rely on insurance coverage to mitigate the damages from catastrophic weather events, the adequacy of such coverage is contentious – for one, the long-term impact on tourism demand for the location is often difficult to estimate. For instance, the shortening of the snow season and lower snow cover (due to rising temperatures) has resulted in several U.S. ski destinations recording volatile business in recent years. When hurricane Irma struck Florida in 2017, many hotels in the state, especially waterfront locations, saw a considerable decline in performance as people evacuated to safer sites (that witnessed a boost in occupancy); even Disney World had to close to the public for two days.

Part of the equation

Astute hotel investors are, thus, increasingly factoring in climate risk in their investment decisions, either by way of a higher underwriting or demanding a markdown in property pricing in affected areas. Moreover, high-risk locations like coastal cities are still prime hotel markets in many regions, and thus, cannot be eliminated from an investment standpoint. As a result, investors are hedging a more balanced portfolio of assets, distributed between high and low-risk areas.

The lodging industry has been making strides in environmental sustainability. Driven by a combined influence of willingness to protect the environment, regulatory changes and consumer preference, hotels have been adopting environmentally friendly practices across the globe, albeit at varying degrees. From an increasing number of LEED-certified hotels (Leadership in Energy and Environmental Design) and reduction in energy, water consumption as well as waste generation, to sustainability education and training, most major hotel chains are seemingly committed to reducing their carbon footprint and contribution to climate change.

That said, these measures alone will not prevent the next natural weather and climate disaster from occurring. In addition to being more environmentally conscious, it is equally important for the industry to become more resilient. Especially so because hotels are often among the first responders when an extreme weather event occurs in a destination. From providing accommodation to supplying food and water, hotels have time and again served as a safety net for the local community, employees and guests. Hence, well-informed steps must be taken to prepare and safeguard property and life when climate adversities strike.

Some ways in which this can be achieved are:

- **Involve climate risk experts:** Proactive organizations are trying to map their climate risk and its likely impact on their businesses by involving climate risk experts. Future investment decisions are being based on due diligence that incorporates potential climate change effects.
- **Adapt hotel building design to withstand climate risk:** Increased elevation, building hardening, moving key equipment to higher floors, using saltwater-resistant materials for construction, additional cooling systems, etc., are options being considered to make a property more resilient, varying based on location. For example, The St. Regis Residences currently under development in Boston has reportedly been designed such that dry flood proofing will be installed up to an elevation of roughly 4 feet above the surrounding grade and nearly 9 feet above the median high tide to protect against storms and sea level rise. The buildings first-floor structure has been designed to allow for a future increase in the ground floor elevation up to an additional 30 inches.
- **Make a collective effort:** Even at a regional level, industry and government can join hands to improve the resilience of an area and enable a swifter recovery from an extreme weather event. For example, Washington D.C., recently announced the “Resilient D.C.” initiative, which among other approaches, aims to prepare all existing at-risk buildings for effects of climate change like floods and heatwaves via retrofitting, and new construction projects via stringent design and construction codes. “Climate Ready Boston” was launched to prepare for climate hazards that include constructing sea walls and flood barriers.
- **Diversify revenue models to account for changing demand patterns:** Weather is a key determinant for travel, and hotels/resorts that are at a high risk of losing business due to frequent adverse climate conditions need to look at alternate modes of revenue generation. This can be seen in places like Hawaii (beach resorts) and Colorado (ski resorts) – properties are expanding off-season offerings to serve as year-round destinations; more indoor activities are being offered to keep guests entertained when conditions outside are unfavorable; and discounted season passes or advance packages are being sold to ensure against potential loss due to inclement weather conditions, among others.
- **Implement disaster training and preparedness:** Preparing for a natural disaster is not just the government’s responsibility – all stakeholders need to participate. Education and training of staff, guests and the local community to increase awareness and ability to respond in the wake of a storm surge, hurricane, wildfire or other adverse events are essential.

As the effects of climate change accelerate, so does the level of uncertainty. The lodging sector’s vulnerability to climate risk is pronounced owing to its vast real estate (hotels/resorts) and heavy reliance on travel activity. Hence, more proactive, widespread collective action is needed to mitigate, adapt and become more resilient to climate risk sooner rather than later.

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