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Hotel Investment Scene in CEE

Getting Real about ESG in Hotel Real Estate

October 2023



3	Introduction
4	Highlights – Hotel investment trends in the CEE-6 region
6	Investment market post COVID-19
7	Transitioning from a path paved with challenges...2020-2022
8	...to an expected period of recovery 2023
12	Key Recent Transactions
14	Interview with Ivans Dokicans, Mogotel Hotel Group
16	Interview with Rafał Gierczak, Ghelamco Poland
18	Where is the money coming from?
19	Where are the yields?
20	Interview with Michal Polesny, OREA Hotels
22	Recovery in the face of headwinds
28	CEE performance by Thomas Emanuel, STR
30	CEE hotels on the path to sustainability
34	ESG profile of Crown Plaza & Holiday Inn Express hotels in the HUB Warsaw
40	Sustainability profile of Old Town Gate project in Prague
52	ESG relevance for the hospitality sector
54	A timeline of the EU's key ESG legislation
56	ESG Profile of Hilton Świnoujście Resort & Spa in Poland
64	Green Clauses
66	Interview with Juerg Zwahlen, Mosaic House
74	About the authors

Introduction

Welcome to our fourth edition of the joint Cushman & Wakefield CMS report on the Hotel Investment scene in CEE: *Getting Real about ESG in Hotel Real Estate.*

In recent years, the hotel sector in CEE has endured a very volatile period. Starting with the pandemic in 2020, followed by Russia's unprovoked invasion of Ukraine in 2022, and consequent economic challenges underpinned by the energy crisis and sharp increase in overall inflation. Not surprisingly, this had a detrimental impact on hotel performance and investment activity across the region, as described in this report. However, the hospitality industry is resilient and able to rebound quickly. The recovery is already underway and has surpassed most expectations. Hotels across the CEE region are showing robust performance, already exceeding pre-pandemic levels in many markets. This has attracted the attention of investors, and we are starting to see a rebound in transaction activity despite the high cost of financing and the ongoing economic and geopolitical challenges. Investors are attracted by the anti-inflationary nature of hotel real estate and the long-term growth potential in the tourism sector in CEE.

To protect and maximise the value of their assets, investors will need to address the challenges and opportunities associated with Environmental, Social and Governance (ESG) factors. In this report, we examine the benefits of implementing ESG best practices in hotels, such as increasing revenue, reducing costs, enhancing value and driving innovation. We also showcase some examples of hotels in the CEE region that have achieved high ESG standards and certifications. Furthermore, we outline the main ESG regulations and initiatives that affect the hospitality sector in the EU, such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, the Non-Financial Reporting Directive (NFRD) and its successor the Corporate Sustainability Reporting Directive (CSRD), and the proposed Corporate Sustainability Due Diligence Directive (CSDDD). We also provide some practical guidance on incorporating ESG clauses into hotel operating agreements.

We hope you enjoy reading this report. If you would like to discuss any of its themes in more detail, we would welcome a conversation.



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Highlights

Hotel investment trends in the CEE-6 region

2018 – 2022



EUR 3.1bn transacted over the last five years with an average deal size of **EUR 18.0m**



EUR 619m average annual volume, **down 0.9%** compared to the previous 5 years (2013-2017)



The large majority (**86%**) of deal volume was closed in three countries: the Czech Republic, Poland, and Hungary



Private investors accounted for **nearly half (51%)** of the total transacted volume



71% of the volume was transacted in the region's **capital cities**



European investors (inc. domestic) represented **89%** of deal volume

H2 2022 – H1 2023



Hotels worth **EUR 464m** were transacted in the last 12 months, **up 74%** compared to the previous 12 months (H2 2021 – H1 2022)



23 hotels comprising 2,922 rooms were sold, with prices averaging **EUR 137,600 per room**



Nearly all (89%) of the volume was transacted in the region's **capital cities**



Most of the transacted volume were **upscale hotels (43%)**



European investors (incl. domestic) accounted for **nearly all (95%)** of the transacted deal volume



Publicly listed and institutional investors accounted for **half (50%)** of the total volume, and accumulated equity allowed them to maintain activity in the region

2023 Outlook



EUR 563m is expected to be transacted by year-end within the CEE-6 region, with **30% of the volume already completed**



Transaction activity is currently led by Hungary (**59% of completed volume**). However, Czech Republic and Poland are expected to lead the overall volume by the end of 2023



2,650 rooms are expected to be sold in 2023, 1,012 rooms already sold as of September 2023



Investment market post COVID-19

Before March 2020, transaction volumes in the CEE-6 region were on an upward trend, especially in the capital cities. Strong tourism fundamentals and improving trading performances across the region allowed some cities like Prague, Budapest, and Warsaw to increase their transaction liquidity and rise as competitors to some Western markets.

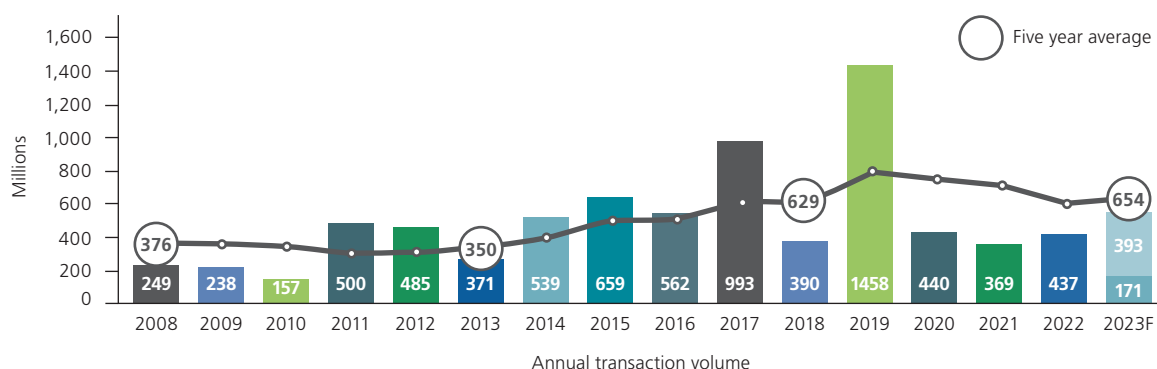
However, COVID-19 brought unprecedented challenges for the hotel sector and led international investors to adopt a cautious strategy, focusing on their domestic markets. This explains why the CEE-6 experienced a significant drop in investment volumes in 2020, even more so compared to the well-established investment markets in Western Europe. The region's slow recovery continued due to other macroeconomic and geopolitical challenges, especially the increased cost of financing and proximity to the Russian war in Ukraine. Some transactions progressed, but a smaller pool of investors with stronger regional ties carried them out. The economic and geopolitical challenges remain, but the investment market within the CEE region is picking up, driven by several factors such as continued strong performance recovery, the anti-inflationary nature of hotel assets and pressure on some owners to dispose of assets to improve their leverage or when facing major capital expenditures.

CEE-6: Transaction volume overview

Transaction volumes in the CEE-6 reached EUR 6.2bn over the last 10 years (2013-2022), with notable peaks in 2017 (EUR 993m) and 2019 (EUR 1.46bn). The region is growing into a dynamic investment scene as showcased by the 5-year annual average transaction volumes achieving EUR 619m in 2018-2022, down 0.9% compared to the period 2013-2017. COVID-19, the increased cost of financing and the war in Ukraine halted the rapid expansion of the CEE-6 hotel investment scene, and the three-year average transaction volumes decreased by more than half during 2020-2022 in comparison to 2017-2019.

Over the last full five years (2018-2022), the Czech Republic remained the leading investment market in the CEE-6 region with EUR 1.0bn of hotel transactions (33% of the total volume). Hungary closely tailed the Czech Republic with EUR 963m worth of hotels transacted between 2018 and 2022 (31%). Poland, Romania, Bulgaria, and Slovakia follow with 22%, 8%, 5%, and 2% of the total transaction volume respectively.

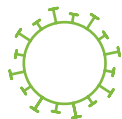
CEE-6: Annual hotel transaction volume (EUR, m)



Source: Cushman & Wakefield / RCA

Transitioning from a path paved with challenges... 2020-2022

The CEE-6 region witnessed a slowdown of investment activity in the period between 2020 and 2022. We highlight below the major macroeconomic factors that contributed to this transactional downturn.



The elephant in the room: COVID-19

COVID-19 had a profound impact on hotel investments worldwide. The hotel industry experienced a significant downturn due to travel restrictions, lockdown measures, and a decrease in tourism during the pandemic. As a result, in the CEE-6 region, the RevPAR decreased from EUR 55 in 2019 to EUR 16 in 2020 and EUR 22 in 2021. This in turn led to reduced revenues and increased operational costs associated with health and safety measures. Many investors became cautious and hesitant to invest in the hotel sector due to the uncertainty surrounding travel and hospitality. Financing for new hotel projects and hotel acquisitions became more difficult to secure as lenders changed their risk perception of this asset class.



Russian War in Ukraine

The Russian war in Ukraine negatively impacted hotel investments in the CEE-6 region by shaking investors' confidence in the region, especially institutional investors from overseas. Furthermore, the war had broader economic consequences for the region, including, currency swings, and a deteriorating business climate. These factors increased the risks and uncertainties associated with hotel investments, causing investors to think twice before committing capital. The conflict was yet another reason for the lenders to remain cautious about providing funds for any hotel-related project in the CEE-6 region.



Energy Crisis

Firstly, increased energy costs put a strain on the operational expenses of hotels. Higher electricity, gas, and fuel prices (an average 69% increase of electricity and 111% of gas across EU capitals between 2021 and 2022). The increase was significantly higher in Central and Eastern Europe due to lower access to diversified sources of energy, for example, utilities POR expense increased by 128% in the Prague hotel market between YT March 2020 and YT March 2022, while it increased by 90% in the Berlin hotel market in the same period. The rising utility costs directly impacted the profitability of hotel operations and made it more challenging for hotels to generate satisfactory returns on investment. Secondly, the energy crisis led to disruptions in energy availability, which raised concerns about the long-term viability and attractiveness of investing in an asset class so reliant on energy.



Lack of Qualified Labor

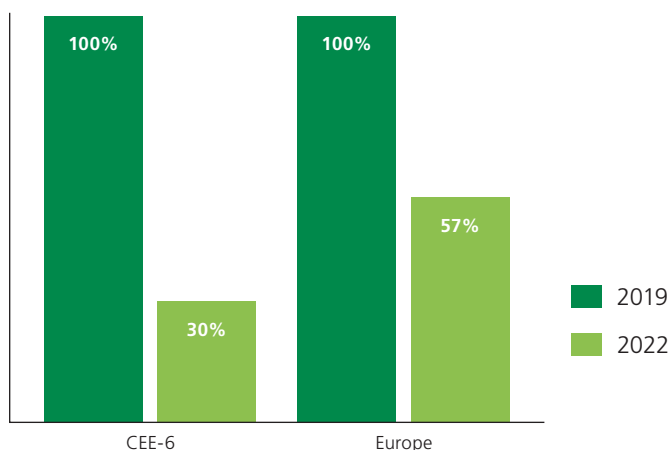
The emergence of new technologies and opportunities related to remote working, paired with the low unemployment rate (as low as 3.4% in the Czech Republic in 2022 compared to 4.8% in Austria and 5.3% in Germany) and the relocation of qualified staff to more appealing hotel markets, created a shortage in hotel operational staff in some CEE-6 markets. We noted a salary increase in the region; however, this was offset by the shortage of staff, creating a need for owners to adopt leaner operational structures.



High-Interest Rates

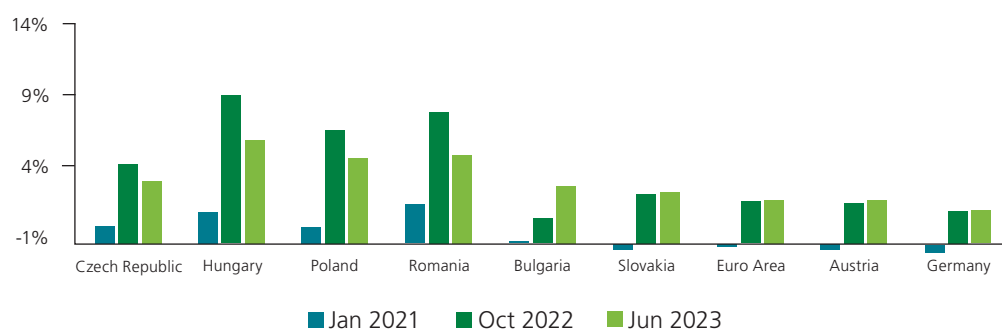
As the global economy started to recover, there were inflationary pressures and in 2022, EU harmonised index inflation rates went up to 15.3% in Hungary, 14.8% in the Czech Republic, 13.2% in Poland, 12.0% in Romania, 13.0% in Bulgaria, 12.1% in Slovakia; against a lower 8.40% in the Euro Zone. To control inflation, central banks started to tighten their monetary policy and increase interest rates. This was especially relevant in the CEE-6 region compared to Western Europe. For example, 10-YR long-term interest rates jumped by 805bps in Hungary and 640bps in Romania between January 2021 and October 2022, while Western economies recorded more modest increases in the same period, such as Austria with an increase of 330bps and Germany with 275bps. This, combined with the increased margin by commercial banks, led to a fundamental shift in the cost of financing for hotel investors.

CEE-6 vs. Europe: Hotel Transaction Volume Index



Source: Cushman & Wakefield

Long-term interest rates (10-YR maturity, denominated in local currency)



Source: European Central Bank

...to an expected period of recovery 2023

Numerous factors point to a speedy rebound of hotel transactional activity in the CEE-6. We list the major indicators below.



Recovering performance

With the easing of restrictions from COVID-19, travel became viable again and tourism started to quickly rebound, driven by revenge travel, surplus savings, and recovery in transportation connectivity. For example, passenger movements quickly recovered in 2022 to 75% of 2019 across the main airports within CEE-6 capitals. As a result, hotels have experienced improved occupancies in the CEE-6 capitals reaching an average of 64% in Q2 2023. Parallely, the general increase in ADRs observed in the CEE-6 region aided the recovering performances (with a boost in ADR of 19% between Q2 2019 and Q2 2023). Overall, the growth of occupancy levels and ADR have contributed to a healthy improvement of RevPAR across the CEE-6 capitals (reaching EUR 66 in Q2 2023, which is 6.2% higher than Q2 2019). Going forward, the occupancy levels are expected to fully recover to pre-Covid levels (Q2 2019 average of 72%).



Anti-inflationary nature of hotels

Hotels emerged as a compelling hedge against inflation, particularly until inflation rates achieve stability. The CEE-6 region has witnessed a swift recovery of RevPAR (mostly ADR-driven, with a regional average increase of 19.5% of ADR between Q2 2019 and Q2 2023), which resulted in substantial revenue growth, offsetting the impact of inflationary costs. In all CEE-6 markets, the ADR (in local currency) between 2021 and 2022 grew above the country's inflation rate, the largest increases above inflation were recorded in Romania (ADR growth of 30.7%

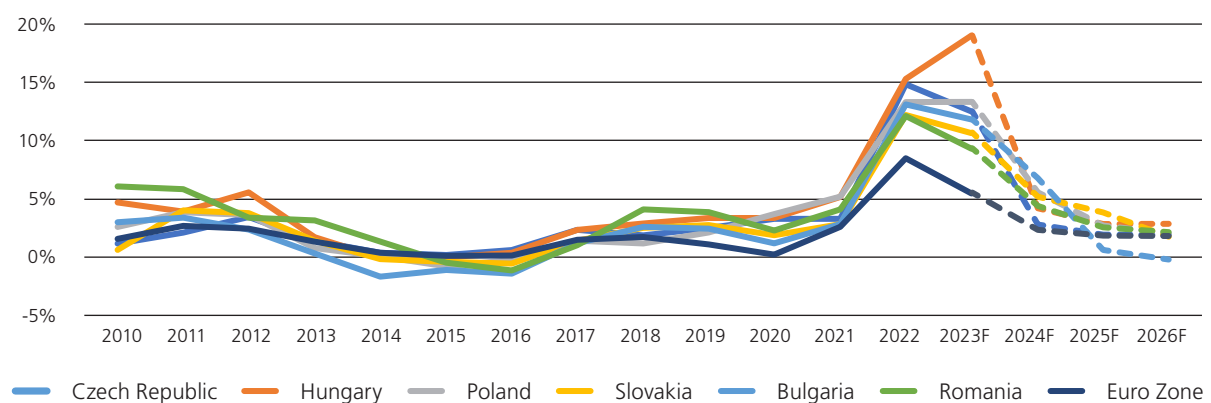
between 2021 and 2022 in local currency vs inflation rate of 12.0% in 2022) and the Czech Republic (ADR growth of 32.4% between 2021 and 2022 in local currency vs an inflation rate of 14.8% in 2022).



Stabilization of inflation rates

Inflation, which reached new multidecade highs in 2022, is projected to decrease in all the CEE-6 countries from 2023 onwards and will be below 2019 inflation rates by 2025, according to all main forecasters including Oxford Economics, Moody's Analytics, and the International Monetary Fund. Stabilising inflation creates a more predictable economic environment, enabling better planning, risk assessment, and decision-making for hotel investors. Stabilising inflation rates are also expected to have a positive contribution in moderating the costs of financing.

Inflation rates (EU Harmonized Index)



Source: Moody's Analytics



Need to deploy capital

There is a growing need for investors to allocate their capital effectively. Investors have accumulated equity during and after the pandemic, prompting them to seek investment opportunities with higher returns. We estimate that EUR 4.2bn of capital was raised amongst 11 major funds targeting European hotels (including for example Azora, Schrodgers, and LRO Hospitality). Meanwhile, many hotel owners have postponed refinancing and capital expenditure, which will need to be reiterated soon. Consequently, we expect a significant increase in capital to be deployed in the hotel sector.



Return of Middle Eastern and Asian Investors

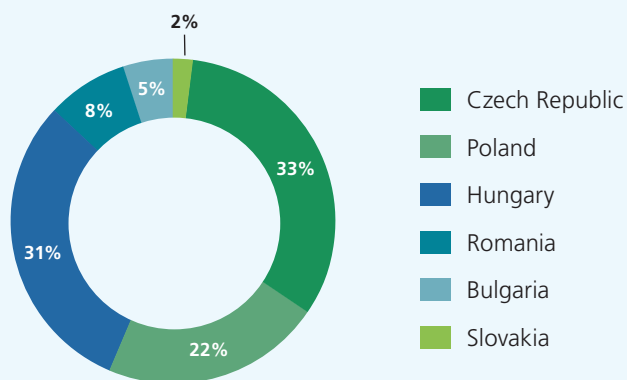
During and after COVID-19, international investors focused more on assets and investment opportunities closer to their home markets. However, in Q1 2023, we observed the return of Middle Eastern and Asian investors in Europe. While Asian investors had a slight increase of 5% in investment volumes compared to Q1 2022, Middle Eastern investors saw a significant jump of 142% (with the concluded deal of Westin Paris Vendome, a 428-key hotel sold for EUR 650m). In Eastern Europe, we have seen a Middle Eastern investor acquiring a 154-key full-service hotel in H1 2023 in the capital city of one of the Baltic states. This renewed interest from long-haul international investors suggests a change in their investment strategies.



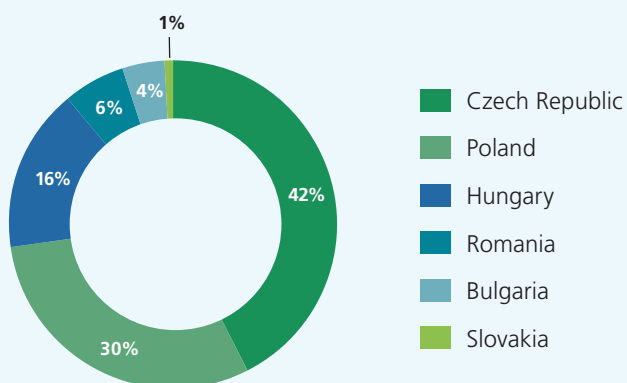
Other

We also note that some major hotel owners in the CEE-6 region are experiencing pressure to decrease their leverage exposure and are planning to de-leverage and sell billions of assets in the coming years. This will increase the number of hotel opportunities brought to the market soon.

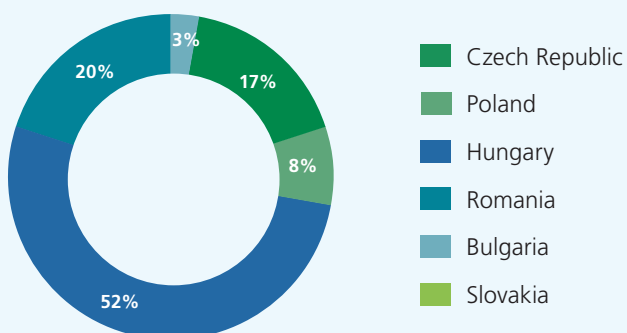
Hotel transactions 2018 -2022 (EUR, m)



Hotel transactions 2019 (EUR, m)



Hotel transactions 2022 (EUR, m)



Source: Cushman & Wakefield



Key recent transactions

In 2019, the CEE-6 hotel investment scene saw a lot of activity with 6 notable deals worth over EUR 50m. The sale of the InterContinental Prague for EUR 225m to R2G was a major highlight. However, the COVID-19 pandemic had a significant impact on transactions, which resulted in a decline in investment activity and especially larger transactions over EUR 50m, with only two recorded in 2020 and one in 2021.

In 2020, the iconic New York Palace and New York Residences in Budapest, along with Carlo IV in Prague, were sold to Covivio, one of Europe's largest REITs as part of an 8-hotel European portfolio deal. Though the transaction started prior to COVID-19, its successful completion during the pandemic showcases the confidence in the long-term prospects of the CEE hotel sector in the eyes of the major European institutions. Furthermore, in 2022, the transaction of S IMMO to CIPG took place, an entity sale with a consequent transfer of hotels (as of December 2021, 7.3% of S IMMO portfolio consisted of hotel assets, which represents c. 27 hotels).

In H1 2023, the region recorded 8 transactions. Although most were smaller transactions below EUR 25m, the acquisition of the 360-key Sofitel Budapest by the local group Equilor stood out as a major deal to date.

CEE-6: Selected hotel transactions 2019-YTD 2023

 Year	 Property	 Market	 Keys	 Buyer	 Buyer origin	 Seller	 Seller origin
2023	K+K Elisabeta	Bucharest	67	Lorand and Zsuzsanna Szarvadi	Romania	InterGlobe	India
2023	Sofitel Budapest	Budapest	360	Equilor	Hungary	Indotek Group	Hungary
2023	Hotel Vitkov	Prague	95	AB Hanner; Baltic Asset Management	Lithuania	Unknown	Unknown
2022	Hotel Gellert	Budapest	234	BDPST Group	Hungary	Indotek Group	Hungary
2022	Mama Shelter	Bucharest	123	One United Properties	Romania	Keys MS Clemenceau	Romania
2022	Grand Hotel Nabokov	Marianske Lazne	127	Confidential	Confidential	Nagama	Czech Republic
2021	W Hotel Evropa Prague	Prague	165	FJ Investment	Czech Republic	Julius Meinl Group	Austria
2021	Hotel Legend	Krakow	100	Fattal Hotels	Israel	Jacek Legendziewicz Jordan Group	Poland
2021	Mercure Bratislava	Bratislava	175	CPI Hotels	Czech Republic	Invesco Real Estate	USA
2021	Iberostar Hotel	Budapest	50	BDPST Group	Hungary	Masaveu Corporacion	Spain
2021	Hold Utca 16 (hotel development)	Budapest	150	Cretum Development	Hungary	KKH Capital & property	Spain
2020	New York Palace Budapest	Budapest	185	Covivio	France	Värde Partners	USA
2020	Carlo IV	Prague	152	Covivio	France	Värde Partners	USA
2020	New York Residence	Budapest	138	Covivio	France	Värde Partners	USA
2020	Barcelo Budapest	Budapest	179	DWS Group	Germany	Sunbelt	Hungary
2019	Radisson Collection Warsaw	Warsaw	311	Wenaasgruppen	Norway	Europa Capital	UK
2019	K+K Portfolio of 4 hotels in CEE-6	Bucharest Budapest Prague	523	InterGlobe Event Hotel Group	India Germany	Goldman Sachs International Highgate Holdings	USA
2019	Sheraton Hotel Warsaw	Warsaw	350	Patron Capital	UK	Walton Street Capital PineBridge Benson Elliot Schroders	USA UK UK
2019	DoubleTree Krakow	Krakow	232	Grupa Unirest	Poland	Euro - Hotele Sp. z o.o.	Poland
2019	Intercontinental Prague	Prague	372	R2G	Czech Republic	J&T Finance Group Westmont Hospitality Group	Slovakia Canada

Note: Selected major transactions (the list is not comprehensive).

Source: Cushman & Wakefield / RCA



Ivans Dokicans

*Mogotel Hotel Group
Board member, Chairman
of the Board of Mogotel
Development Holding*



Mogotel: Wyndham Wrocław.



1



2



3

Mogotel: 1. Novotel Budapest Centrum Room. 2. Novotel Budapest Centrum Restaurant. 3. Wyndham Wroclaw Breakfast Room.

Given the rapidly evolving market environment (the geopolitical situation, inflation, cost of debt, etc.), how has your investment strategy for CEE changed over the last 18 months?

One option is for each project to be financially feasible by adjusting for rising inflation and using an increasing costs diversification strategy on different levels.

We diversify the source markets to reduce the risk of being dependent on unpredictable geopolitical changes and reduce being vulnerable to travel restrictions in specific regions.

Meeting the needs of a wider clientele with a different brand and product concept in one property, with higher key count, has become more common, including as a means to optimise costs.

More detailed market research, pre-pandemic and post-pandemic statistics, travel patterns and demand, competitive issues and the development plan of the area are all taken into consideration when making further decisions about a project's potential.

We are also open to new opportunities as the market changes due to the political situation, inflation and cost of debt, and at the same time we expand

internationally, building our reputation, recognition and credibility for building partnerships with new investors and developers.

What are the asset management initiatives you have been able to undertake to improve the bottom line in some of your hotel properties

The choice of strategic location for the development of the asset portfolio is more easily managed either in a particular country or region, as this reduces the management costs of each asset.

Hotel property and operations efficiency optimisation audits can also reduce rising costs and optimise operating activities.

We also review hotel property area programming efficiency to meet the needs of clients and the surrounding neighbourhoods to increase the revenues. We review and analyse energy efficiency and see what actions we can take to reduce costs as well as what actions we can take to improve energy efficiency.

This includes issues such as personnel costs, what can be outsourced and what training is needed to increase the efficiency of employees or which processes can be automated.

Rafał Gierczak
*Head of Asset
Management,
Board member
Ghelamco Poland*



Crowne Plaza: The Hub, Warsaw.

Taking into consideration the evolving market environment (i.e. geopolitical situation, inflation, cost of debt, etc.), how did your investment strategy for CEE change in the last 18 months?

Ghelamco has always been associated with top-class office space, and regardless of the pandemic and the war in Ukraine, we are sticking to this sector. However, due to the situation in regional markets, we decided to focus primarily on Warsaw, where we have secured plots in prime central locations. We also have a wealth of experience in the luxury real estate market, gained from projects such as Foksal 13/15 and Flisac, which we decided to take advantage of by expanding our operations to harbour and resort locations.

The geopolitical situation created a lot of challenges but has also presented opportunities, and Poland – which is our core market – benefits from these opportunities. Currently, there are also significant opportunities for acquisitions. Market prices are becoming increasingly favourable and we are seeing increasing activity from potential investors which, combined with prospects for financing cost decreases from next year, brings more optimism to the market.

What are the asset management initiatives you were able to undertake to improve the bottom line in some of your hotel properties?

In our Dual-branded hotels – in our case Crowne Plaza and Holiday Inn Express – we utilise the cost optimisation opportunities by servicing both hotels with plenty of shares – not only traditional general and admin, HR, IT, accounting, sales, etc. but also sharing the resources in the front desk, kitchen.

In all newly developed properties, Ghelamco uses energy-efficient technologies such as the Building Energy Management System which allows adjustment of the energy consumption in a dynamic way in accordance with needs (like rooms occupancy, conferencing space, etc.). We introduced proactive energy sourcing instead of a traditional procurement model, which requires much more effort but savings are significant.

In our hotels we eliminated or minimised automatic renewal clauses. Hotels typically use outsourcing to provide services like laundry, elevator maintenance, etc. Many of these contracts in the past were renewed automatically without rebidding or seeking a reduction in the fee. All of our contracts are now reviewed and renegotiated in regard to scope and pricing.

And last but not least – we care about highly-motivated and qualified personnel. Our goal is to keep high motivation by upselling incentives and by introducing service charges across main revenue centres – and with this we have managed to relieve pressure on Hotels' P&L.



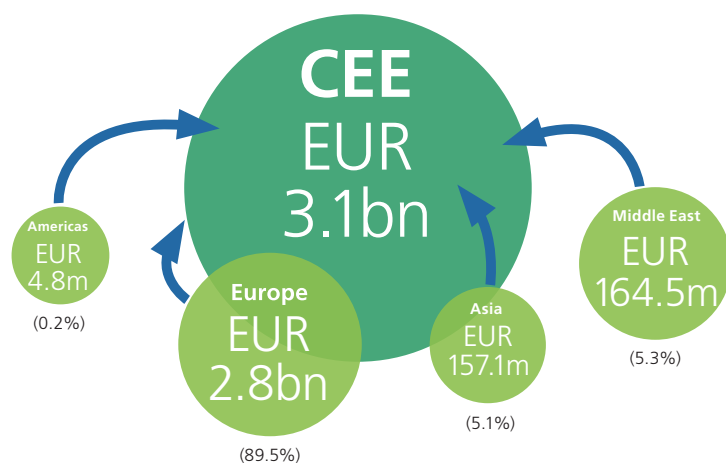
*Market prices
are becoming
increasingly
favourable and
we are seeing
increasing
activity from
potential investors*

Where is the money coming from?

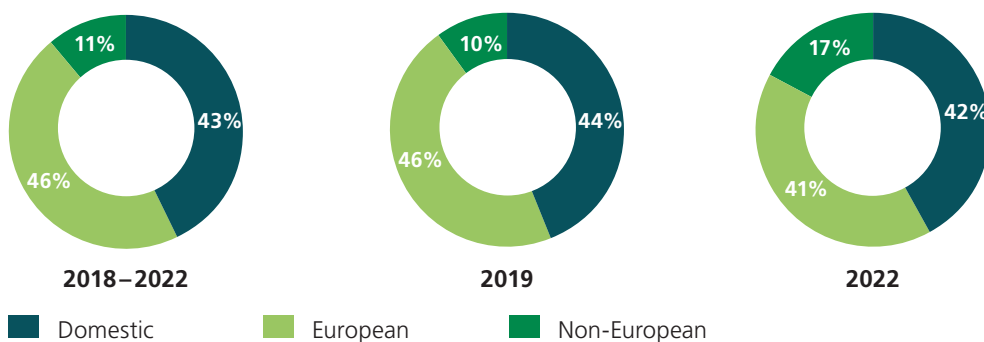
From 2018 onward, European capital became the dominant force in regional investments. In 2019 alone, European, and domestic capital accounted for a remarkable 90% of overall hotel investment volumes.

During 2020-2021, with difficulties of financing and a wait-and-see approach from most international investors, the majority of European and domestic-based investments came from private companies. In 2022, we witnessed progress in the diversification of capital in CEE-6, with non-European investments making up 17% of total volume, 7% higher than in 2019. This change was primarily due to Israeli investment groups, including Fattal Hotels, Hagag Real Estate, and Long Bridge, successfully executing five deals in Poland, Romania, and Hungary. Looking ahead to H2 2023, we expect further diversification of capital as more non-European investors (including Middle Eastern and Asian investors) start considering investment opportunities in Central and Eastern Europe.

Total transaction volume invested in CEE-6 hotels; 2018-2022 (EUR, cumulative)

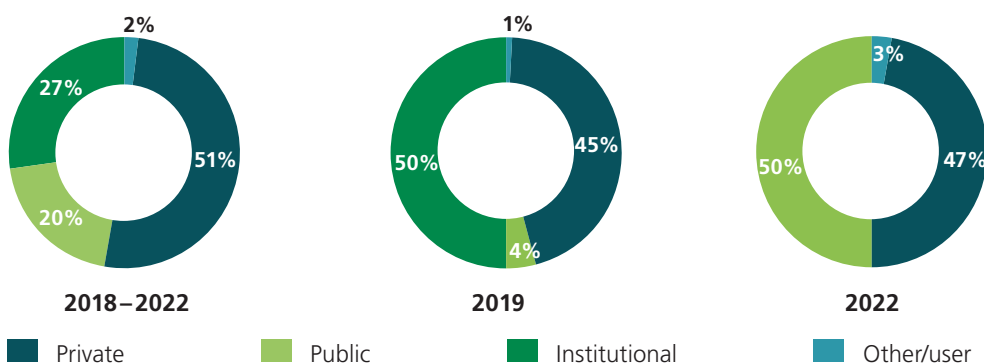


Origin of Capital (share in % based on transaction volume)



Source: Cushman & Wakefield / RCA

Structure of CEE-6 Hotel investment by Investor type (share in % based on transaction volume)



Source: Cushman & Wakefield / RCA



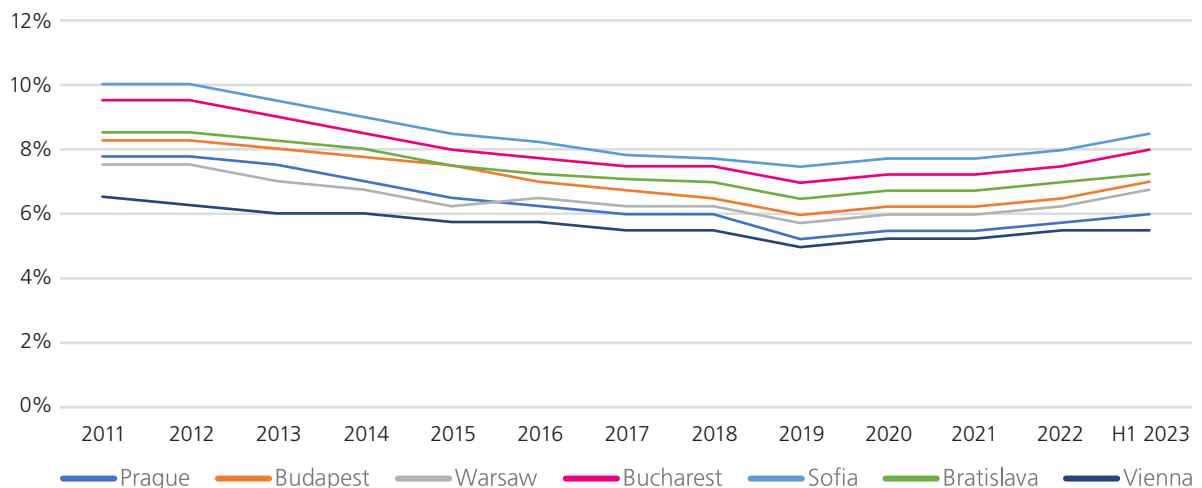
Source: Penta, Cloud One

Where are the yields?

Prior to the COVID-19 outbreak, the CEE-6 markets experienced increased interest from public and institutional investors, resulting in yield compression. High liquidity and strong interest from a diverse pool of buyers resulted in the lowest yields in the CEE-6. In fact, Prague's yields were only slightly higher than Vienna's, with a difference of just +25-50 bps in 2019.

During the pandemic, there was limited evidence of shifts in yields. However, the market sentiment suggests that yields experienced a slight upward movement between 2020 and 2021. We estimate that Prague, Warsaw, and Bucharest saw a modest decompression of 25 bps, while Budapest, Bratislava, and Sofia witnessed a slightly stronger decompression of 50 bps. In 2022, the increased cost of financing contributed to further decompression, estimated at 50 bps across all CEE-6 markets.

Yield trends 2011 – 2022: CEE-6 capitals and Vienna



Source: Cushman & Wakefield

Note: The yields are based on actual transactions where available as well as the sentiment indicated by investors. The initial yield may vary widely in the region particularly depending on the location, hotel quality/type, deal type, operating structure and upside potential (applicable to the Management Contract operating structure).



Michal Polesny
CFO
OREA Hotels



Given the rapidly evolving market environment (the geopolitical situation, inflation, cost of debt, etc.), how has your investment strategy for CEE changed over the last 18 months?

Surging interest rates have intensified the pressure on performance, causing some opportunities to lose their appeal. While a bolder and more aggressive approach might have succeeded in the past, our current strategy leans towards maintaining consistency, leveraging our strengths, and adopting a more conservative stance.

What are the asset management initiatives you have been able to undertake to improve the bottom line in some of your hotel properties?

Thanks to substantial investments in renovations and upgrades, OREA has witnessed a swift surge in revenue growth. Both in the present and the foreseeable future, our primary focus remains on completing the ongoing reconstruction and refurbishment initiatives that have already demonstrated their success, earning us acclaim from our guests. Additionally, OREA is well-positioned to replicate this tale of success on an international scale.



1



Both in the present and the foreseeable future, our primary focus remains on completing the ongoing reconstruction and refurbishment initiatives that have already demonstrated their success.



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Source: OREA Hotels – 1. Hotel Pyramida Prague Restaurant. 2. Hotel Horizont Restaurant Železná Ruda. 3. Hotel Pyramida Prague.

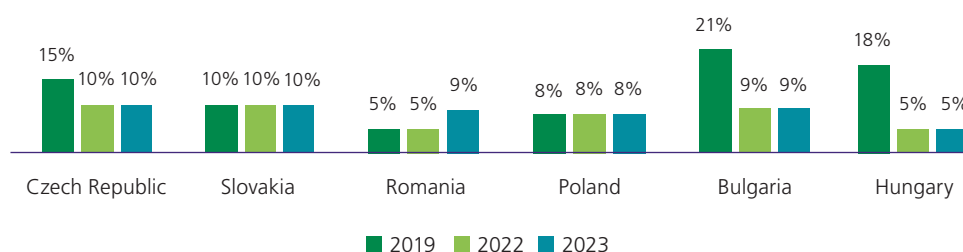
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Recovery in the face of headwinds

Before the pandemic, hotels in the CEE-6 region (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia) had been experiencing healthy performance growth. For example, from 2015 to 2019, the average RevPAR of hotels in the region's capital cities grew at a promising CAGR of 6.3%, outperforming most other European hotel markets. While the COVID-19 pandemic as well as economic and geopolitical challenges disrupted this upward trend, recovery is under way.

After the unprecedented disruption to the global hotel sector during the pandemic in 2020, the CEE region's capital cities started to see the first signs of recovery with the easing of travel restrictions in the second half of 2021. This trend continued into 2022, with a remarkable 189% year-on-year RevPAR increase across the CEE-6 capitals, reaching 82% of pre-pandemic levels (2019). Among the capital cities in the region, Budapest achieved the highest RevPAR (EUR 60), followed by Warsaw (EUR 56) and Prague (EUR 54). The improvements can primarily be attributed to the strong rebound in demand, especially in the leisure segment ("revenge travel") and compressions created during weekends and holidays. This allowed hotels to grow ADR above inflation in most markets. In some markets, this development was boosted by reduced VAT rates, which were especially notable in Bulgaria and Hungary.

VAT on hotel & restaurant services per region



Source: *European Taxation, C&W*

Moreover, Poland has experienced increased demand due to NATO activity, NGOs, and war refugees caused by Russia's full-scale invasion of Ukraine. The impact of exchange rate fluctuations, high inflation, and segmentation shifts have also played an important role in shaping these trends in the region.

Good, but can be better

While hotels in the CEE-6 capital cities saw a healthy performance recovery, it was not as good as in the rest of Europe. In 2022, the region capitals' RevPAR was 34% lower than the European average, a gap that increased by 15% compared to 2019. The slower performance growth of hotels in these markets is mainly due to the geopolitical turmoil following the start of Russia's war against Ukraine. Despite these headwinds, hotels across most CEE-6 markets are expected to continue with performance improvement and be an effective hedge against inflation, with revenue growth compensating for increasing expenses. The YTD June 2023 results confirm this. Compared to the pre-crisis level (YTD June 2019), hotels in the CEE-6 region capitals recorded an ADR growth of 20%. While the occupancy is still lagging (11% behind 2019 levels), the RevPAR increased by 6% reaching EUR 66 on average.

The positive outlook for the CEE region is supported by several factors: a constrained supply pipeline, proximity to major source markets like Germany, a strong leisure demand in Prague and Budapest, and robust domestic demand in Warsaw/Poland. As a result, the upward trend in CEE is expected to persist. While ADR growth is anticipated to slow down in the future, the growth in occupancy will contribute to maintaining the positive momentum. This will enable the region's performance levels to surpass the peak levels before the pandemic, as has been the case in most other European hotel markets.

Domestic demand partially offsets slower inbound travel

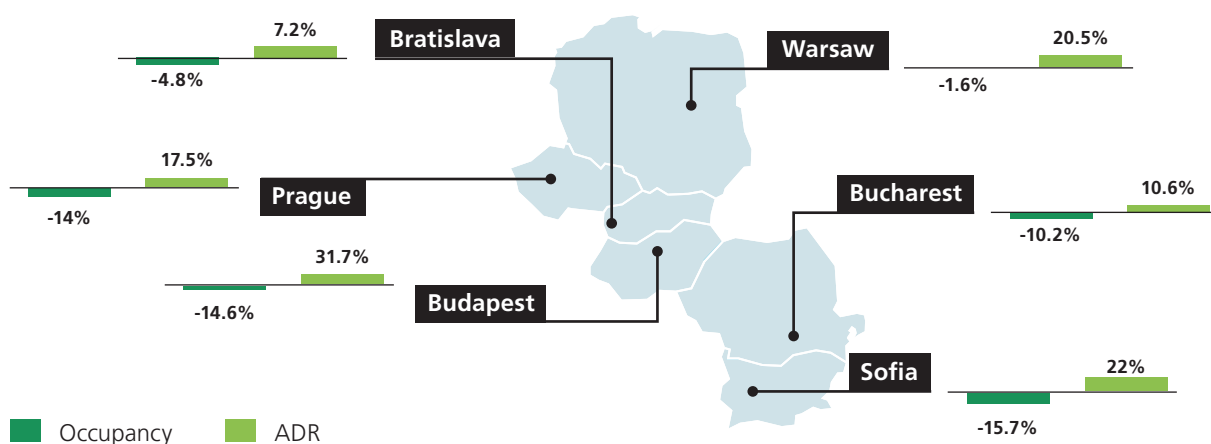
The CEE-6 capitals showed a consistent 4.8% CAGR growth between 2015 and 2019, with Prague leading the pack, attracting approximately 18.5 million stays in 2019, of which around 89% were foreign tourists. While the pandemic and travel restrictions resulted in a 72% drop in overnights in the CEE-6 capitals in 2020, the easing of pandemic restrictions the following year led to a gradual increase of 35%.

In 2022, the tourism sector in the CEE-6 capital cities made a healthy recovery with a staggering 119% growth in overnight stays over 2021, although it remained 18% below 2019. This growth was supported by domestic tourism, which in several markets surpassed 2019 levels. For example, in Prague and Warsaw, the overnight stays by nationals exceeded 2019 by 14% and 22% respectively. On the other hand, international stays have not fully rebounded, with 2022 overnight stays in the capital cities still 33% below 2019. The proximity of the CEE region to Russia's war in Ukraine has been the key factor constraining inbound travel, including a drop in visitation from Russia that historically accounted for 4.3% of total overnight stays in the capital cities. Similarly, so far there has been limited visitation from Asia, especially due to outbound travel restrictions in China, which accounted for 2.3% of overnight stays in CEE capitals in 2019.

One of the factors contributing to the slow recovery of international demand is partially constrained flight capacity. Despite this, CEE-6's main airports have witnessed a 39% surge in passenger movement in YTD May 2023 compared to YTD May 2022, with a 10% gap remaining against YTD May 2019. Prague and Bratislava airports face the biggest gap, trailing 26% and 36% behind, while in Sofia and Bucharest, passenger movements are only about 1% behind 2019 levels.

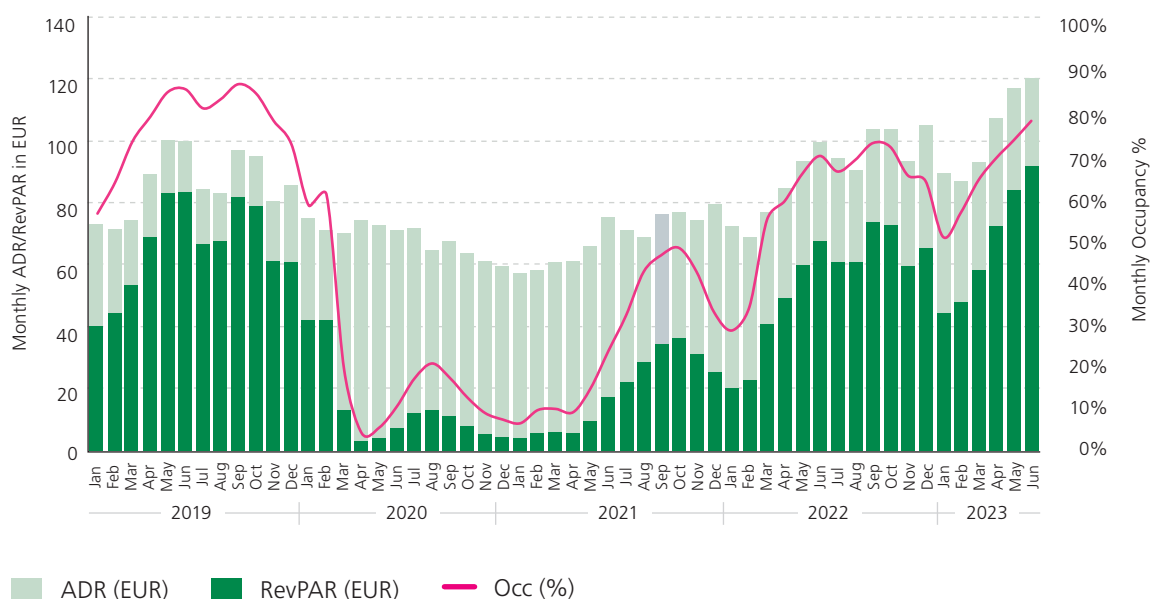
Despite the challenges, tourism demand is expected to recover across most CEE-6 markets within the next two years. According to Oxford Economics, overnight stays in the CEE-6 countries are expected to reach pre-COVID levels by late 2023 for Poland, Bulgaria, and the Czech Republic. Slovakia and Hungary are expected to achieve the same by 2024. Romania's full recovery is expected by 2025, due to a slower recovery in international demand.

ADR and occupancy performance in YTD June 2023 (% change vs YTD June 2019)



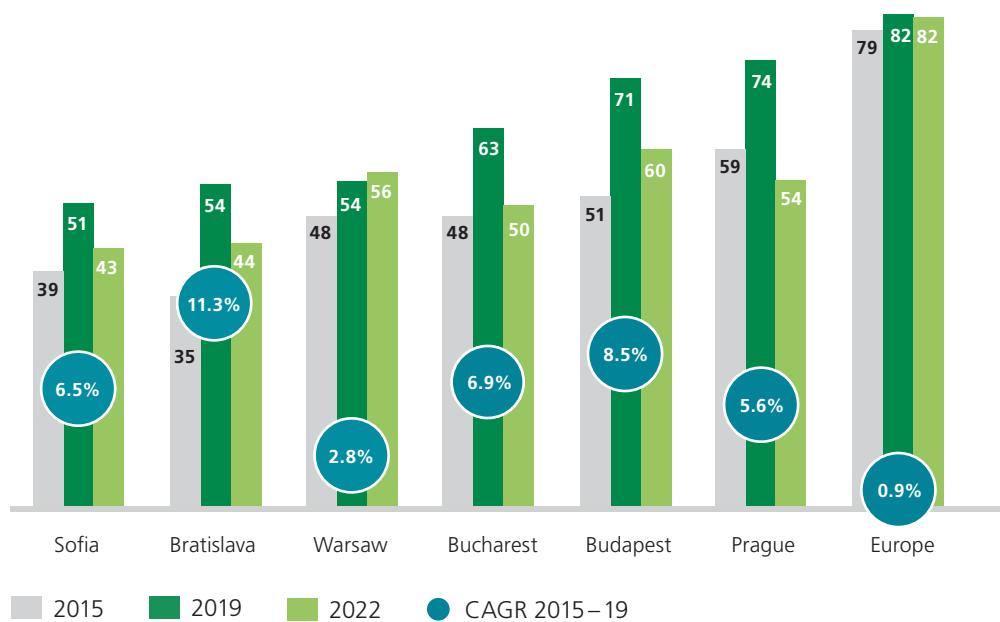
Source: STR

Monthly performance trends, CEE-6 capital cities



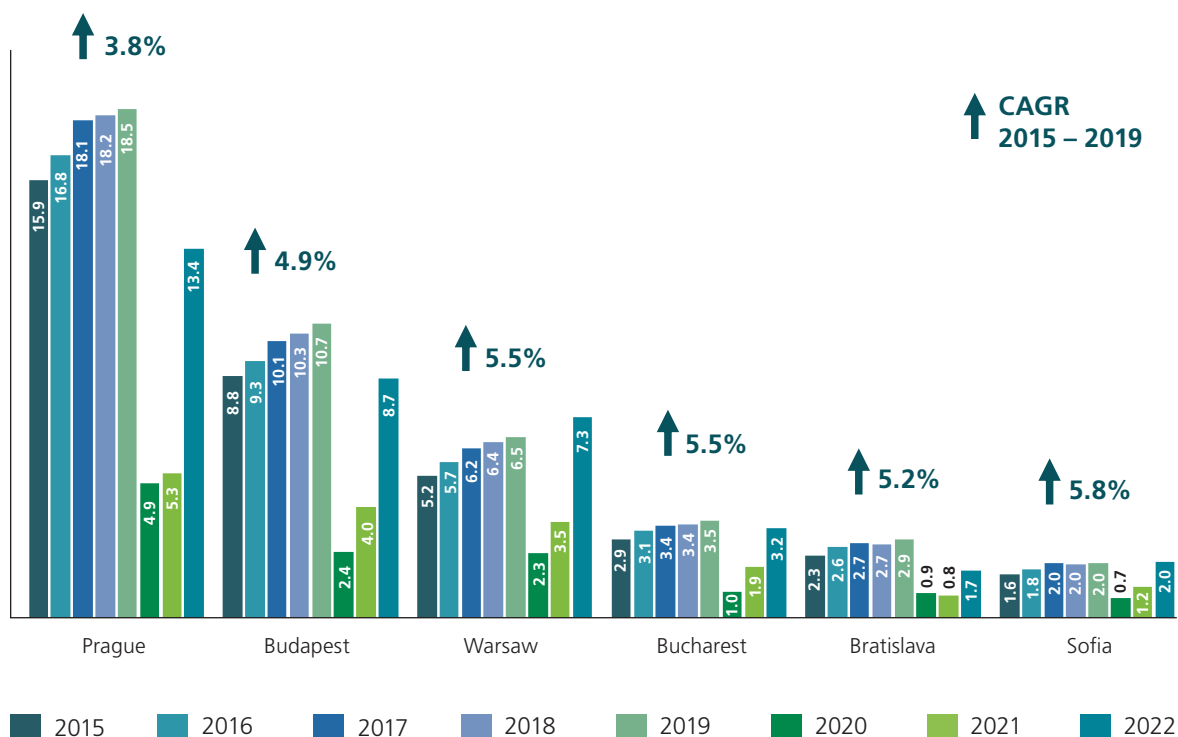
Source: STR

Performance trends in key CEE-6 Markets vs Europe (RevPAR in EUR)



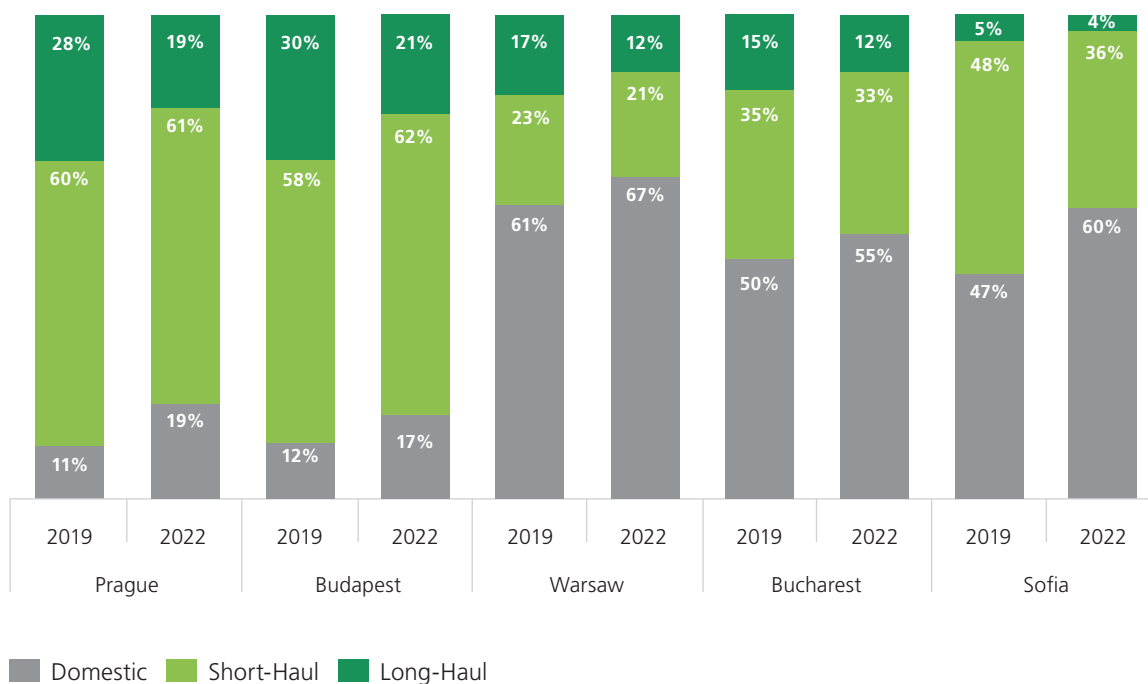
Source: STR

Overnight Stays – CEE-6 Capitals (2015–2022, millions)



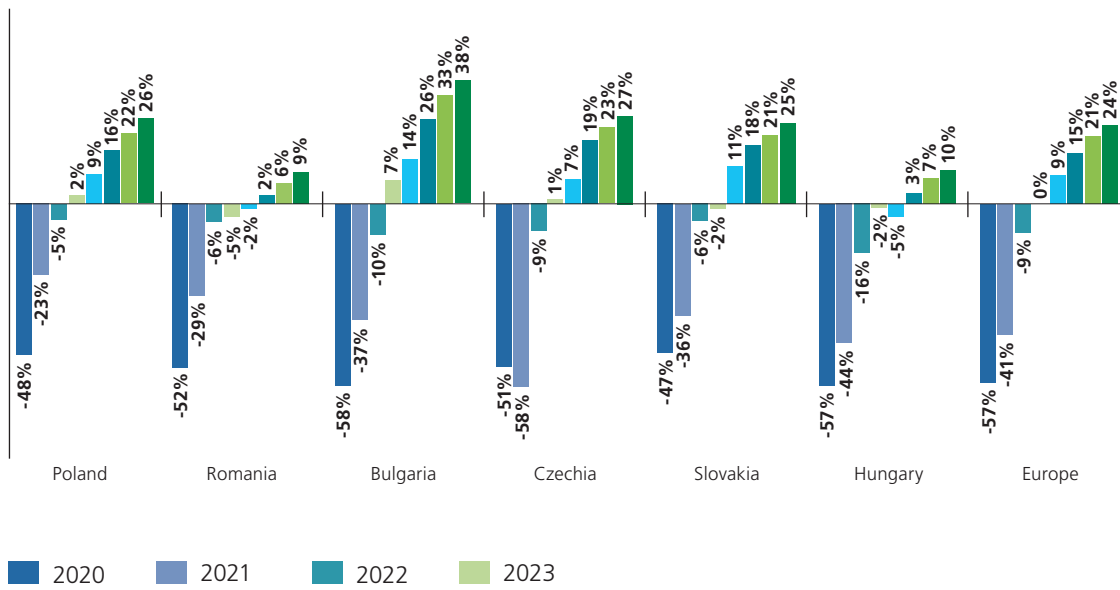
Source: Respective Statistical Offices

Traveler profile based on origin



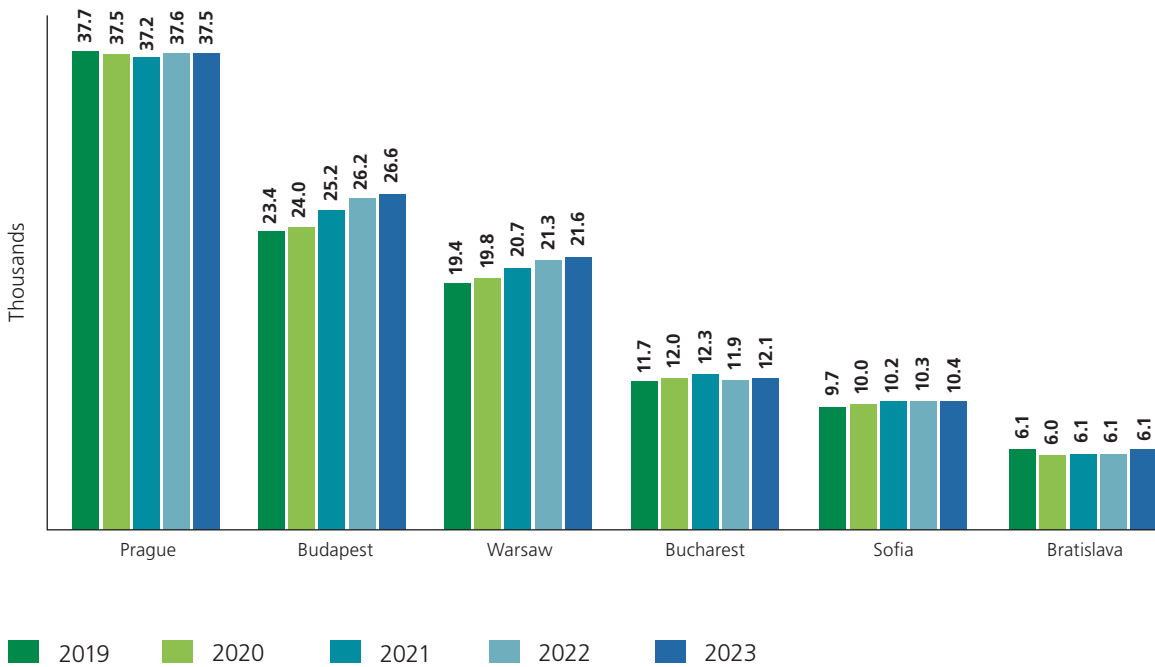
Source: Oxford Economics

Overnights stay % change year-on-year



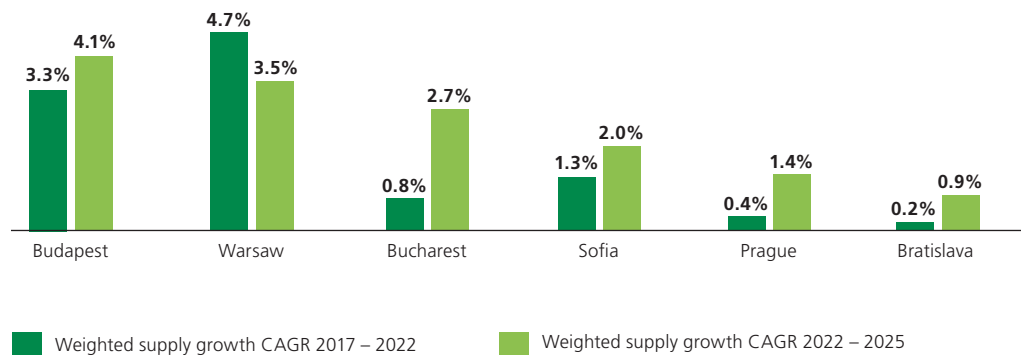
Source: Oxford Economics

Room supply – CEE-6 Capitals



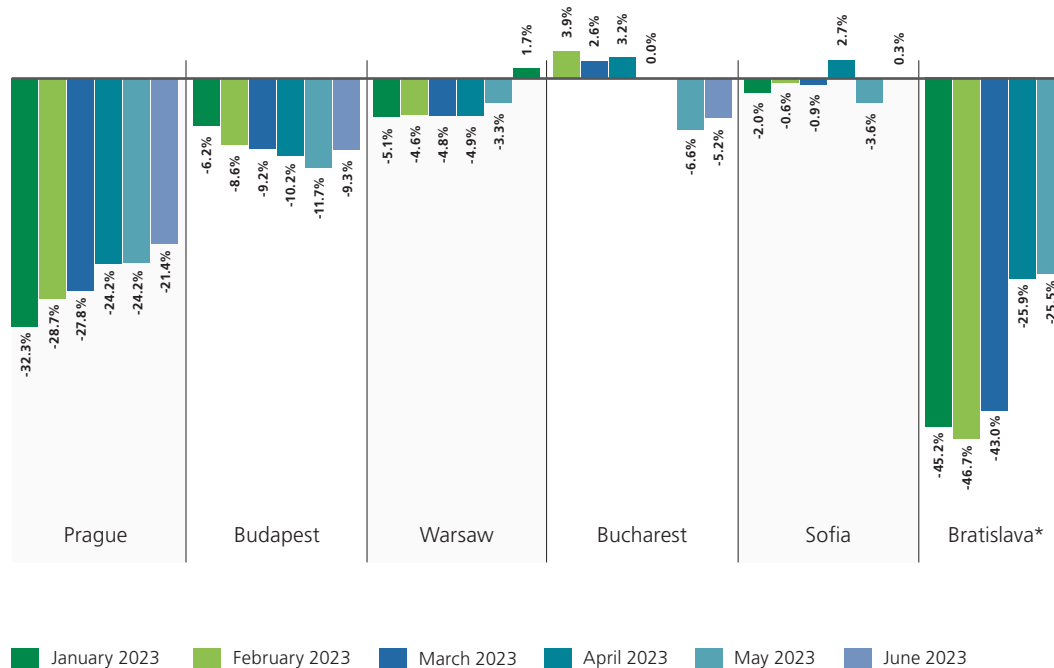
Source: Cushman & Wakefield

Hotel supply growth – CEE-6 Capitals



Source: Cushman & Wakefield

Monthly airport traffic in 2023 (% difference vs 2019)



*no data available for June 2023

Source: European Airport Traffic Statistics (EATS) 2023



CEE performance returning to pre-pandemic levels

Hotel performance across Central and Eastern Europe is aligned with the rest of the continent. The first half of 2023 witnessed significant growth in both occupancy and average daily rate (ADR), but when compared to 2019, occupancy still has not quite recovered while ADR has made considerable progress.

The challenges facing the region are familiar, with high inflation and energy costs exacerbating a continued cost-of-living crisis. Despite these headwinds, demand drivers are returning, and the industry is continuing to progress toward pre-pandemic levels.



Thomas Emanuel
Senior Director
STR



Poland, a rising European superpower, has produced differing results in recent months. Warsaw, specifically, reported slightly unusual occupancy percentage changes when compared to the rest of the region. Remember, occupancy in Q2 2022 was strong due to an influx of Ukrainian refugees. With higher comparables, the capital saw year-on-year occupancy declines at a time when most other markets around Europe reported growth against lower prior-year levels. Other Polish cities have also seen year-on-year declines for the same reason. ADR, however, has continued to grow, and Warsaw is the one major capital that has seen both occupancy and ADR exceed 2019 levels even with supply rising 13% during that time. This growth is due primarily to strong corporate business returning, along with demand related to the war in Ukraine.

Prague and Budapest, the two CEE capitals that have always benefitted from strong leisure demand, have not yet returned to their prior occupancy levels. H1 2023 indexed to H1 2022 was 85% for Prague and 88% for Budapest. It has been widely reported that leisure demand was the first to rebound after the pandemic, and whilst this is true, a lack of airlift and the slower return of both long-haul travel and conference business has impeded these markets' ability to fully recover.

Elsewhere in the region, the other major capitals – Bratislava, Bucharest, and Sofia – have all shown similar levels of recovery. In terms of occupancy, Bratislava leads



In terms of occupancy, Bratislava leads the way with H1 2023 at 96% of 2019 levels, whilst ADR growth has been lower than most at just +9%

the way with H1 2023 at 96% of 2019 levels, whilst ADR growth has been lower than most at just +9%. The return of corporate demand to Bucharest has helped occupancy recover to 90% of the matching pre-pandemic period, with ADR increasing by 15%. ADR growth has been more impressive in Sofia, at +22%, which is somewhat compensating for the occupancy level still lagging at just 84% of 2019 levels.

Overall, we are seeing the region slowly returning to pre-pandemic levels, and the return of corporate and conference demand, along with increased airlift all point toward a more positive future.



Source: W Budapest. Courtesy of W Hotels I

CEE hotels on the path to sustainability

Sustainability is one of the most critical topics for humanity and the hospitality sector, and hotels in the CEE region are no exception. While some progress has been made, hoteliers still have a long path ahead. This represents a challenge for most but also opportunity for those who act now and holistically.

Where CEE hotels stand according to AI

We asked Chat GPT (artificial intelligence language model) to compare the adoption of sustainability practices in hotels in the CEE region versus Western Europe. This is what it found:

The adoption of sustainability practices in hotels varies between Central and Eastern European (CEE) and Western Europe due to:

- 1. Awareness and Education:** Sustainability awareness is gradually increasing in the CEE region, with hotels becoming more cognisant of the benefits of eco-friendly practices, although awareness levels are not as high as in Western Europe.
- 2. Economic Factors:** Some countries in CEE face economic challenges. Limited resources may constrain investments in energy-efficient technologies and eco-friendly initiatives.
- 3. Infrastructure:** Many hotels in CEE are housed in historic or older buildings, which can pose challenges in implementing advanced sustainability technologies.
- 4. Regulations and Incentives:** The regulatory environment for sustainability practices in CEE can be less developed than in Western Europe.
- 5. Local Sourcing:** CEE's strong tradition of local agriculture and craftsmanship provides a unique opportunity for hotels to emphasise local sourcing and support regional economies.
- 6. Collaborative Efforts:** Sharing best practices and knowledge across the region can accelerate the implementation of sustainable initiatives.

Not all CEE markets and hotels are the same

Regarding sustainability, hotels in CEE share some region-specific challenges. However, there are also some notable differences between the markets in the region, as there are hotels that are much more advanced on their sustainability journey and can be considered industry leaders.

CEE vs Western Europe

According to Chat GPT, hotels in CEE are lagging behind their Western European counterparts, partially due to lower awareness and education regarding ESG. There is only limited research available comparing European countries in this regard, but what can be found does not suggest this is the case, at least not in all CEE countries. For example:

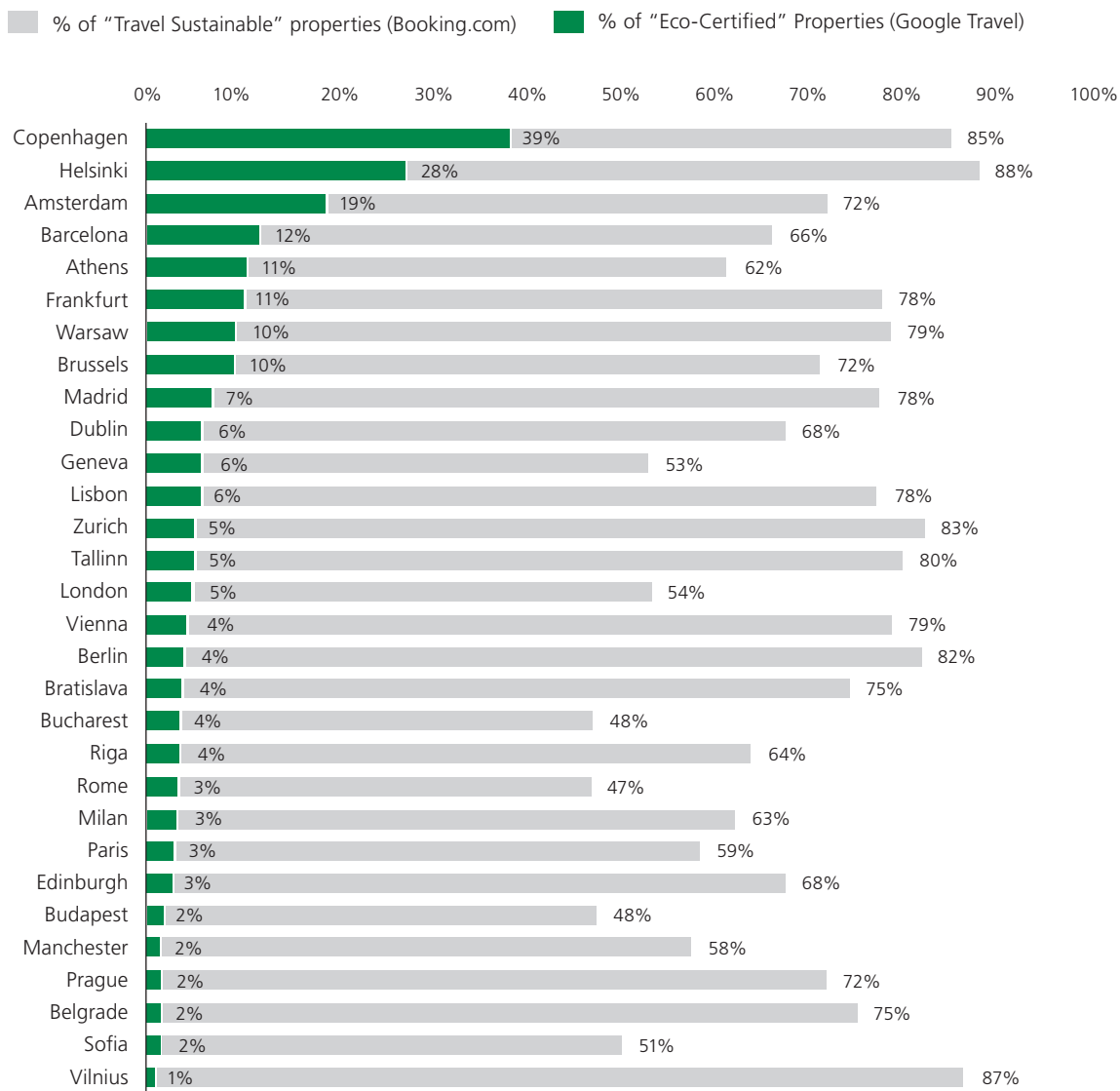
- According to [Sustainable Travel Index 2020 by Euromonitor International](#), which ranks 99 countries on environmental, social and economic sustainability, Estonia, Slovakia, and Latvia are among the top-10 highest-ranking countries. Additionally, Lithuania and the Czech Republic are in the top 20, and Poland is in 21st place, ahead of Spain. While Bulgaria is in 31st place in Europe, it is still ahead of the UK.
- Based on recent research into [Europeans Attitudes Towards Responsible Travel Choices by European Travel Commission \(2021\)](#), Polish travellers are leading across most indicators, ahead of nine other Western European countries in the study.

In terms of CEE hoteliers' awareness of sustainability's importance to attracting environmentally conscious travellers, this can be somewhat assessed based on how many hotels have implemented ESG initiatives and how they are promoting the sustainability of their hotels online. Our initial research suggests that some CEE markets are leaders in Europe. For example, when analysing the availability of hotels that have the Travel Sustainable badge on Booking.com across 30 major European markets¹, there are several CEE cities among the top-15 markets, with the share of "Travel Sustainable" hotels being above 75%². However, there is a relatively low level of formal eco-certifications.

There are various levels of sustainability

It is important to note that having the Booking.com badge does not necessarily mean that a hotel is very sustainable, as there are three [Travel Sustainable levels](#), with level 1 reflecting only a limited number of impactful sustainable practices. More importantly, the sustainability claims by hotels are not verified. When looking at hotels that have formal sustainability certifications (e.g. BREEAM, LEED, Green Key, GSTC etc.), on average, only about 7% of hotels across major European markets are estimated to have recognised ESG qualifications that are granted based on third-party verification.³ In this regard, the share of eco-certified hotels is relatively low across most CEE cities (less than 5%), except in Warsaw, which is among the top 10 markets, with nearly 10% of hotels having a recognised eco-certification.

Proliferation of hotels promoting sustainability features vs hotels with formal eco-Certification (selected CEE cities vs major European markets)



Source: Booking.com, Google Travel and STR

¹Based on STR European Hotel Review list; excludes Moscow, St. Petersburg, Tel-Aviv and Istanbul.

²Based on the number of hotels available on Booking.com for a flexible week in October 2024 (All hotels vs Travel Sustainable hotels, data retrieved on 15 August 2023).

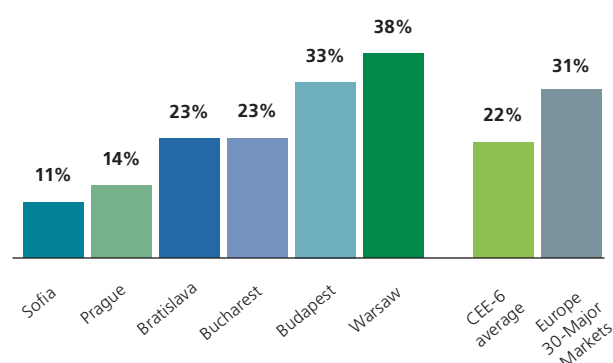
³Based on the number of eco-certified hotels on Google Travel divided by the total number of hotels in the city as reported by STR (data retrieved on 15 August 2023).

While it is challenging to fully understand the main reasons behind low certification levels in most major CEE cities, the relatively higher level achieved in Warsaw suggests this is primarily driven by the following factors:

- **Low brand penetration and high fragmentation:** Branded and large hotels typically target international corporate and MICE demand that appreciate formal eco-certifications. In addition, many operators and tenants encourage owners to get a certification, and some even have their own sustainability programmes recognised by Google Travel, such as Hilton’s LightStay and Wyndham Green. However, most hotel markets in CEE have relatively low brand penetration. Further, most hotels are relatively small properties in frequently old, historical buildings, which makes it more challenging to achieve a satisfactory certification level. The exception is Warsaw, where most hotels are branded, relatively large, and modern.

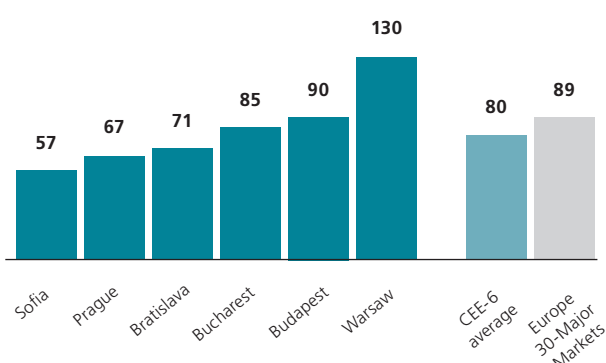
Hotel branding in CEE

(% share of branded hotels, 2022)



Hotel sizes in CEE

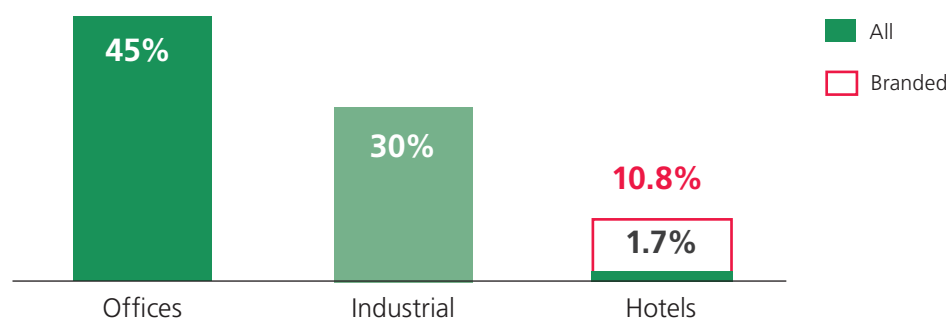
(Average number of rooms, 2022)



Source: Cushman & Wakefield Research (based on the number of hotels with brands vs independent hotels in each market)

- **Low institutional/international ownership:** Institutional investors tend to have strong ESG policies with public commitments, sometimes including compulsory certification of their real estate portfolio. However, many hotels in CEE are privately owned. There are some institutional investors, such as Union Investment, Deka, Invesco and Accor Invest, but they primarily own hotels in Poland, which explains the current higher share of certified hotels in this country. However, the major local investor groups across the broader CEE region are ramping up their sustainability strategies (70% have an ESG policy as of 2022 and the remainder are working on it according to our survey), and increasingly seeking certifications for their hotels (50%, according to our survey). This, combined with the further proliferation of institutional investors across CEE, should result in a rise in certifications in the hotel sector, as in other real estate sectors where certification is much higher (as illustrated in the example from Prague).

ESG-Certification Level in Prague (Hotels vs Offices vs Industrial)



Source: C&W research, Office/Industrial based on certified sq. m., Hotels based on certified buildings.

ESG profile of Crown Plaza & Holiday Inn Express hotels in the HUB Warsaw

Owner: GHELAMCO

General overview

Two hotels within a high-rise, mixed-use complex of three buildings, built in Warsaw CBD, offering 113,000 sq. m. of multifunctional area. The hotels cover a floor area of 27,942 sq. m. and comprise 430 rooms, F&B outlets, other guest facilities, 24 dedicated parking spaces, and a retail area. The building was completed in 2020, and the hotels are operated by Intercontinental Hotels Group (IHG)



Crowne Plaza Warsaw:

212 rooms, 2,000 sq. m. conference space with three bar & restaurants, and a fitness centre



Holiday Inn Express Warsaw:

218 rooms and one F&B outlet (a coffee shop)

Key sustainability features

- **BREEAM Excellent:** The hotels achieved a score of 75.2% and have been certified with Excellent BREEAM New Construction in 2021.
- **High EPC standard:** Annual demand for unrenewable primary energy of 185.8 kWh per sq. m., ahead of the EP for reference building (207.8 kWh per sq. m.).
- **Future-proof building:** Based on the CRREM assessment at 2°C, the asset is free of stranding risk beyond 2050. For a target of 1.5°C, the asset is not expected to reach stranding before 2038.
- The first European hotels to receive the **WELL Health & Safety Rating certification**, guaranteeing maximum epidemiological safety measures.
- Awarded **Building Without Barriers** for the limited mobility-friendly design. The hotels also achieved a high score of 89 out of 100 points according to Walk Score, an indicator used for assessing walkability.
- Equipped with a state-of-the-art **Building Management System & Building Energy Management System**.

Heating & Cooling Sustainability Features

- Low heat transfer coefficient
- Energy-saving windows
- Effective sources of heating and cooling

Water Management Sustainability Features

- Rainwater collected and used for flushing the toilets
- Water-efficient appliances such as wash hand basin taps and kitchen taps max 6 litres/minute, showers max 8 litres/minute and WC full-flush volume of 6 litres. The potential for the implementation of waterless urinals is currently being analysed.

Waste Management Sustainability Features

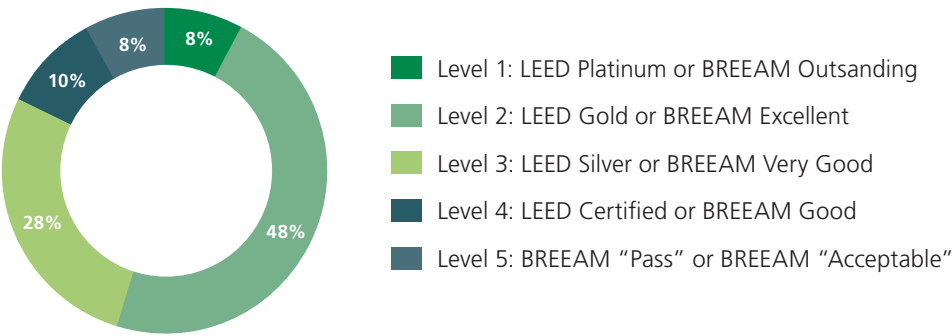
- Bio-waste and leftovers from the hotel restaurant and café are converted into animal food by pyrolysis
- Excess food after events is donated to homeless people
- Refillable glass water bottles in all the hotel rooms with plans to eliminate all single use plastics



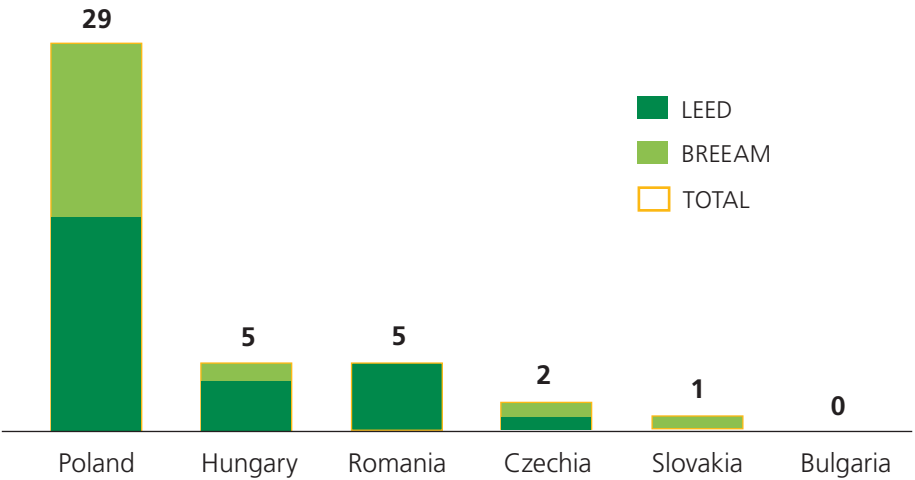
Crowne Plaza: The Hub, Warsaw.

Regarding building certifications such as BREEAM and LEED, having one of these does not necessarily mean that the hotel is very sustainable, as there are different categories. However, our research suggests that most hotels achieve relatively high ratings. For example, 55% of hotels with BREEAM and LEED certifications in the CEE-6 countries achieved at least an Excellent or Gold rating. More importantly, certification shows that the owners invested in the key step on the sustainability journey, which is the assessment of the status quo with an identification of areas for improvement.

Rating Breakdown of LEED & BREEAM Certified Hotels in the CEE-6 Countries



Number of BREEAM & LEED Certified Hotels – CEE-6 countries



Source: BREEAM & LEED online database/Google Travel, Booking.com and online research (Some certificates might have expired).

The key is reducing energy usage & dependency on fossil fuels

While reducing energy intensity should be the primary focus for all businesses, it is unlikely that hotels will ever operate without using energy. Thus, energy reduction must be combined with a shift away from fossil fuels. This is a challenge for hotels in some CEE countries that currently use a high percentage of fossil fuels to produce electricity. This affects a key sustainability measure, which is the carbon footprint of a hotel.

Electricity Emission Factors Pathways - CRREM (kgCO₂/kWh)



Source: CRREM Risk Assessment Tool EU V2.03

Although carbon-heavy grids are outside the control of hoteliers, this issue still may affect the decisions of investors and other stakeholders. Hoteliers must focus on reducing the energy intensity and consider purchasing green electricity. The good news is that according to a [recent study by EMBER](#), CEE has good potential to increase wind and solar sources of energy.

There are good reasons for hotels to be sustainable

To protect value and reduce risk

- Minimise physical risk – Impact of Climate Change on asset value and insurability
- Reduce transition risk – comply with increasing legislative & regulatory requirements
- Retain customers/revenue

To drive value and capitalise on opportunities

- Increase revenue through environmentally conscious clients (leverage WTB and WTP)
- Reduce operational costs (energy, maintenance, employee retention)
- Get better commercial terms from operators (lower fees, more key money) and other partners
- Benefit from favorable underwriting and valuation (e.g. lower cap rates, less CapEx deduction)
- Access capital at a lower cost and benefit from fiscal incentives

Closing the intention-action gap – Impact on Revenue

Several recent surveys indicate growing intentions to travel sustainably. However, so far there is limited research confirming there is a real impact on hotel revenues. One of the reasons for the relatively low impact so far is the behavioural phenomenon called the intention-action gap, which means the difference between what people say, what they want or value, and what they actually do.

While people might not always act in line with their values and intentions, it is important to make it easier for them to make the right choices. This also applies in the tourism sector, where travellers seek but struggle to find sustainable accommodation. For example, according to a sustainability survey by Booking.com in 2023, 76% of travellers expressed a desire to travel more sustainably and about 43% said they were willing to pay extra for travel options with a sustainable certification. At the same time, more than half (51%) of travellers believed there were insufficient sustainable travel options. This is a pressing issue in the CEE region, as our research indicates a relatively low proliferation of hotels with eco-certifications. While certification is not necessary for a hotel to be sustainable, the lack of it makes it very difficult for travellers to differentiate from hotels with less substantiated sustainability claims (greenwashing).

The above raises the issue of transparency and how easy it is to find sustainable hotels. There has been a notable improvement in this regard in the last two years, with various sustainability filters on OTAs and search engines, such as Eco-Certified label on Google Travel and the Booking.com Sustainable Travel badge. While consumers might have doubts about the credibility of these badges and labels, and there is also confusion with a wide array of certifications, technology and increasing regulations should continue to improve transparency and reduce the intention-action gap, thus helping sustainable hotels to drive higher revenue. There are signs this is already progressing, as according to the Global Consumer Survey (GCS) by Statista in 2022, 19% of travellers paid extra for sustainable travel in the previous two years.

The potential to increase or lose revenue is especially relevant to the corporate and MICE segments, where clients increasingly include ESG requirements in their RFPs. For example:

- According to the ITM Buyer Member Survey 2021, 61% of travel buyers include sustainability considerations in all their RFPs;
- BCD Travel reported that 43% of its travel buyers use sustainability related questions in RFPs, with another 45% looking to implement them.

In the CEE-6 capitals, the corporate and conference segments are important demand drivers. For example, according to HotStats data, these two segments accounted for 30-45% of accommodation demand in the key CEE cities.⁴ Accordingly, hoteliers in the region need to understand and address the rising ESG requirements of corporate and MICE clientele.

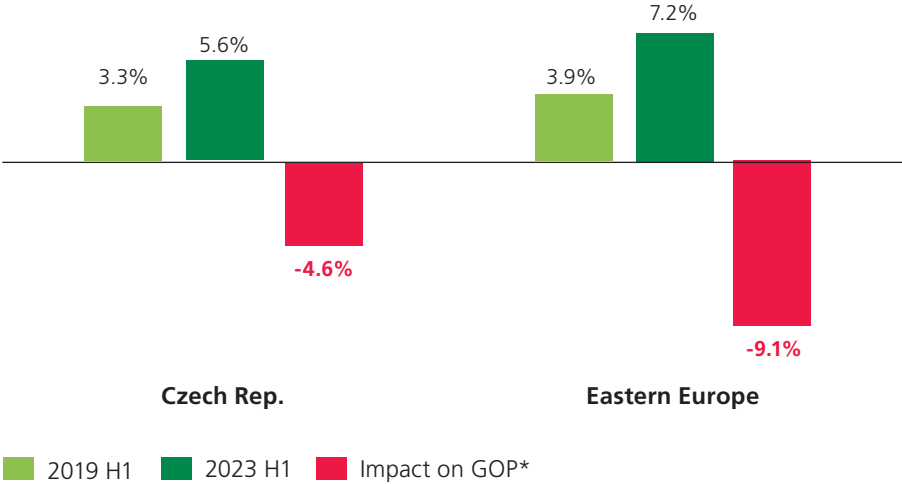
Major potential to reduce utility cost – impact on Expenses

While the impact of hotel sustainability on operating revenue might vary depending on the demand segmentation and willingness of guests to book or pay a premium, there is less ambiguity about the potential for cost savings by implementing sustainability measures.

The HotStats data indicate that the energy cost in hotels across Eastern Europe accounted for 3.9% of Total Revenue in H1 2019, while this increased to 7.2% in H1 2023. On per-occupied-room basis, the utilities expense increased from EUR 4.6 to EUR 9.0, representing a 95% increase. This utility expense spike reduced the Gross Operating Profit of hotels in Eastern Europe by about 9.1%, and by 4.6% in the Czech Republic. Unsurprisingly, hoteliers are looking for opportunities to mitigate this impact.

⁴Based on 2018/2019 HotStats data for Warsaw, Prague, Budapest and Bucharest.

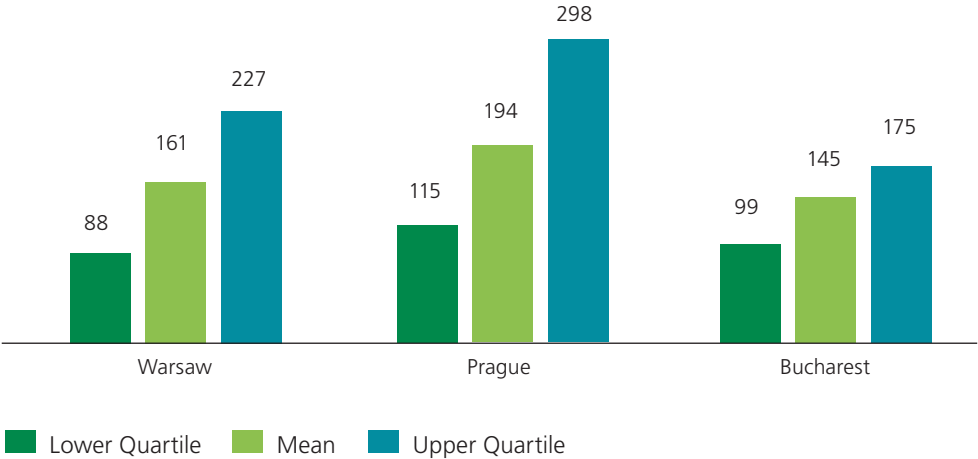
Impact of the Energy Crisis on Hotels (Utilities as % of Total Revenue)



Source: HotStats (*GOP PAR in H1 2023 vs GOP PAR if the utilities would be the same in 2023 as in 2019)

The good news is that based on our research and experience with energy audits, hotels can notably reduce energy and water consumption by implementing sustainability measures. For example, according to the latest Cornell Sustainability Benchmarking Study (CHSB 2023), the average final energy consumption for a sample of 31 full-service hotels in Warsaw, Prague and Bucharest was approximately 166 kWh per occupied room in 2021, while the 25% most efficient hotels (lower quartile) had approximately 41% lower energy usage at 99 kWh per occupied room. This is in line with data provided by DeepKi in their [ESG Index](#), indicating that the top 30% and top 15% of most efficient hotels in Europe consume notably less energy per square meter than the average property (by 30% and 48% less, respectively).

Hotel Energy Usage Per Occupied Room (kWh)
Full Service Non-resort hotels



Source: Cornell Hotel Sustainability Benchmarking (CHSB) Index 2023, based on 2021 calendar year data thus, the energy usage per occupied room might be overstated due to a low number of occupied rooms that year.

Sustainability profile of Old Town Gate project in Prague

Drivers behind investment into sustainability features of the project

The Old Town Gate project is a long-term multi-generational investment with the ambition to elevate this somewhat neglected part of the city centre and transform it into a full-fledged urban space for Prague residents and visitors alike. The intention is to be a good neighbour and provide sustainable solutions that will endure over time and improve the environment, whether it be through the renovation of buildings or revitalisation of the surrounding area. Our partner in this is Accor group, which was selected after a thorough diligence process as the operator of the Golden Prague Hotel under their Fairmont brand. This leading operator complements and aligns with our purpose with its additional sustainability elements such as an emphasis on saving water, a commitment to minimising food waste and its efforts to eliminate single-use plastics in the guest experience.

Key sustainability elements

The project seeks to improve the environment, **reduce heat emissions, increase the proportion of unpaved and green areas, slow down the evaporation of water and enhance its retention within the area and usage for irrigation**. The goal is to deploy a balanced mix of measures to improve the local environment, including state-of-the-art technology pertaining to **renewable resources and a net-zero carbon footprint**.

The hotel building itself is undergoing a major reconstruction that is **significantly improving its sustainability characteristics**, with effectively all the external and roof cladding being replaced. Conventional sources of heating and cooling are substituted by **geothermal energy through an array of boreholes and an associated cascade of heat pumps**. At the same time, all technology and operational units that generate a large amount of heat will incorporate heat recovery systems. This applies not only to commonly used recuperation in air-conditioning systems but also, for example, to the recovery of heat from water in the kitchen, laundry and partly also guest showers. In principle, only a minor part of the cooling will be produced through conventional air-conditioning units, while water wells, ground and air heat pumps will provide the majority.

The hotel's surrounding area is undergoing an even more remarkable transformation, with a significant increase in unpaved and green spaces. This is particularly noticeable in the case of the rooftops and facades of the new building extensions, where greenery is used as part of the architecture. This will also be supplemented by urban vegetation as part of the latest **"blue-green infrastructure"** system. The operation and management of the area will benefit from systematic rainwater retention via a network of reservoirs and distribution systems for irrigation. Additional water features such as fountains, ponds and wet walls will be added. All this, in conjunction with greenery, should create much better conditions for water retention and overall **reduction of temperatures in the targeted zones** within the overall area.

The concept works on the basis of "rainwater harvesting" by deploying all available water treatment methods.

This includes rainwater retention and its use for irrigation, the use of supply water from wells for operations that do not need drinking water, wastewater treatment, and its secondary use for flushing (so-called "greywater"), the use of water as a source of heating and cooling for heat pumps, including heat recovery from the hotel operation.

About the Old Town Gate project

The ambition of the Old Town Gate project is to transform the area at the end of Pařížská Street into a functional, safe and aesthetic urban space. Overall, 6,250 m² of new open space will be created, stretching from Bílkova Street up to the quay at the Dvořák Embankment. The plan is to enrich the surroundings with new infrastructure in the form of an underpass to the embankment, safe footbridges for parents and children from the elementary school on Curie Square, street furniture, greenery, fountains or spaces for services, shops, cafes and restaurants. Part of the project is the reconstruction of the existing hotel that will re-open as the Fairmont Golden Prague Hotel offering several new gastronomic concepts. The project also encompasses adjacent buildings, two additional structures that will extend Pařížská Street to the embankment, and the overall revitalisation of Miloš Forman Square and the wider area surrounding the hotel. The project is financed by the R2G family investment office, which is backed by Czech entrepreneurs Oldřich Šlemr, Pavel Baudiš and Eduard Kučera. Following the international architectural competition, the implementation was assigned to the renowned Czech office TaK Architects, headed by the award-winning architect Marek Tichý, the project's author. The general contractor is Metrostav.

www.oldtowngate.com



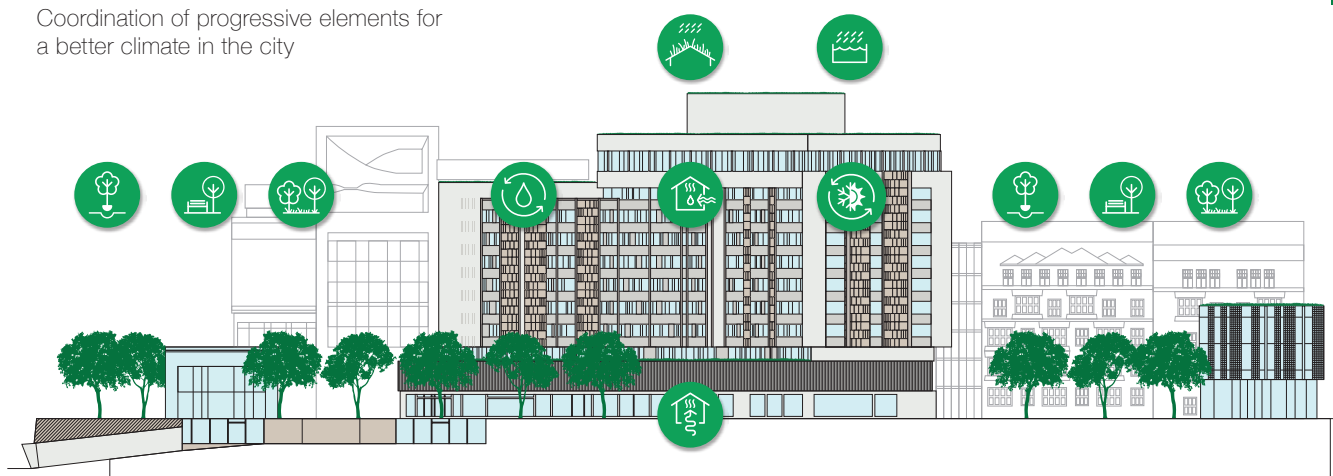
The intention is to be a good neighbour and provide sustainable solutions that will endure over time and improve the environment

Jakub Dyba
Director of New Investments
R2G family office



Key Sustainability Features of the Project

Coordination of progressive elements for a better climate in the city



Greenery

- **43 trees** in public spaces in parks and alleys
- **Over 500 m²** of new park areas
- **2 177 m²** of green roofs
- **210 m²** of vertical gardens



Water harvesting

- **Retention of rainwater** and its use for irrigation
- Utilization of a proportion of supply water from wells for operations that do not require potable water
- Wastewater treatment and its secondary use for flushing ("grey water")
- Heat and cold source: water as a medium for heat pumps, including unique heat recovery from hotel operations



Blue-green infrastructure

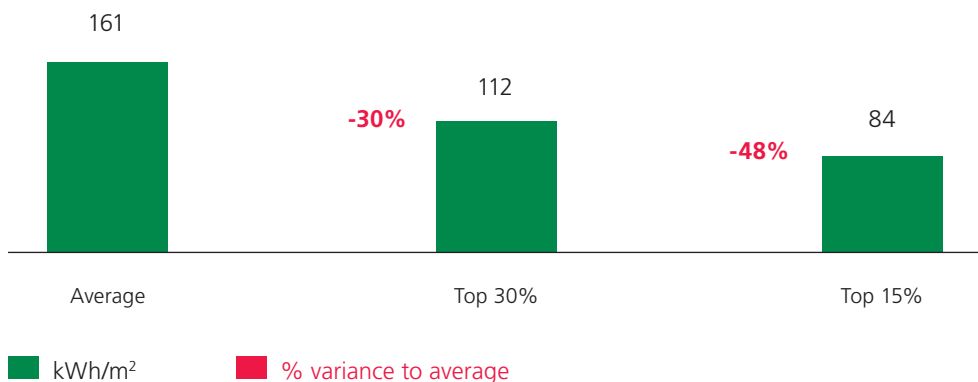
- **A network of elements for modern cities** to address urban and climate challenges
- Includes **water elements** for rainwater **harvesting or its purification**
- Together with green elements, it can, for example, reduce air pollution, save energy, improve microclimate or reduce overheating of the place



Energy management

- Array of **30 geothermal boreholes with associated cascade of heat pumps**
- Cooling and heating works on the principle of **recovering and recycling energy** from internal sources such as geothermal boreholes on the hotel property, waste heat from the operation of the kitchens or air conditioning
- **97.7% sustainable sources of cooling**
- **46.9% sustainable heat sources**

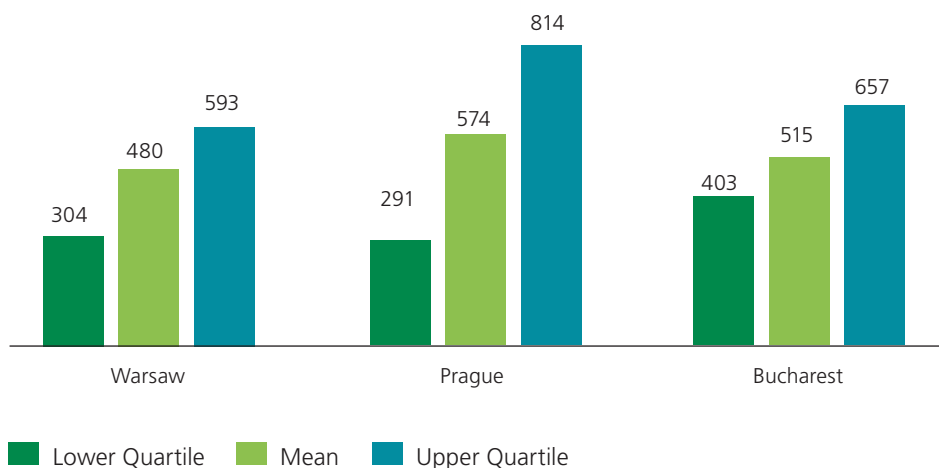
Final Energy Consumption Hotels (Europe)



Source: Deepki ESG Index

Similar notable savings can be also achieved in terms of water consumption. Data from the CHSB 2023 study indicates that the average water consumption for a sample of 28 full-service hotels in Warsaw, Prague and Budapest was approximately 520L per occupied room in 2021, while the 25% most efficient hotels (lower quartile) had approximately 37% lower water consumption at 328L per occupied room.

Hotel Water Usage Per Occupied Room (litres) Full Service Non-resort hotels



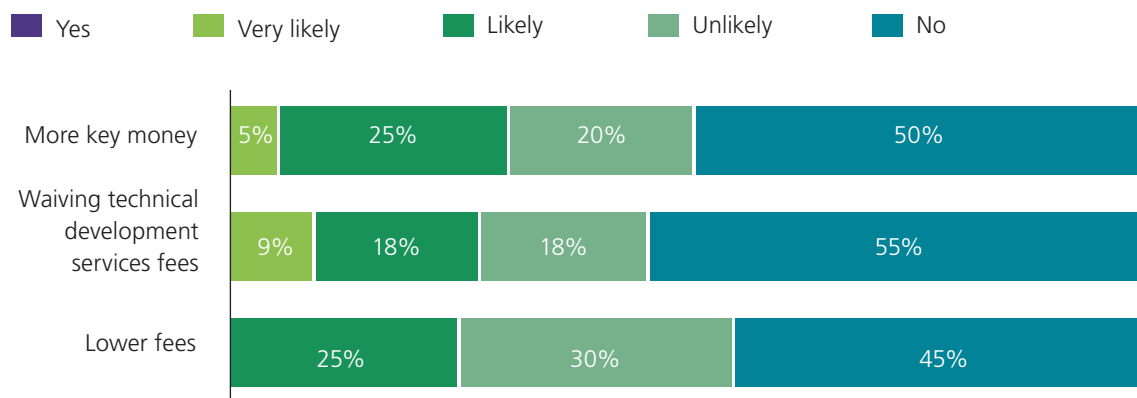
Source: Cornell Hotel Sustainability Benchmarking (CHSB) Index 2023, based on 2021 calendar year data, thus the water usage per occupied room might be overstated due to the low number of occupied rooms that year.

Additional notable savings are possible in terms of food waste. According to One Planet Network⁵, the most food waste comes from over production and some 20-35% savings are achievable if previous food waste initiatives were not implemented.

Another incentive for hotel owners to invest in sustainability is the potential to get better commercial terms from operators.

⁵[Online Training Series on Sustainable Food in Tourism](#)

Impact of ESG Credentials on Operators' Commercial Terms in CEE



Question: Are you willing to provide more favourable commercial terms for hotel properties that have the highest environmental building rating/certification (for example: BREEAM-Outstanding, LEED-Platinum, EPC-A, etc.)?

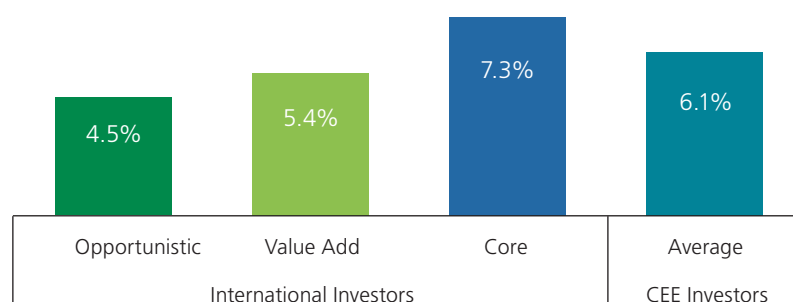
Source: C&W Hotel Operator Survey 2023

Overall, a notable cost reduction can be achieved by not only investing in active and passive energy saving measures, but also via behavioural changes such as amending housekeeping and food preparation practices. Our simulation for a hotel with EUR 100 RevPAR suggests that a 25% reduction in utilities can lead to a 5% increase in EBITDA⁶. This excludes other potential cost-reducing benefits, such as reduced insurance premiums and lower staff turnover.

Investors seek sustainable hotels – impact on hotel transactions

ESG has become a hot topic among hotel investors, yet uncertainty persists about its real impact on hotel investments. The key finding of our surveys is that hotels with the highest ESG credentials are expected to command a value premium of 4.5% to 7.3%, depending on the risk profile of the investment. Regarding CEE, the average expected premium was about 6%⁷.

Expected ESG Premium (for hotels with the highest certifications)



Source: C&W Hotel Investor Surveys 2022 & 2023.

⁶Based on a simulation for a 200-room hotel with EUR 100 RevPAR, 75% Room Revenue, utilities at 6% of TR, 30% EBITDA.

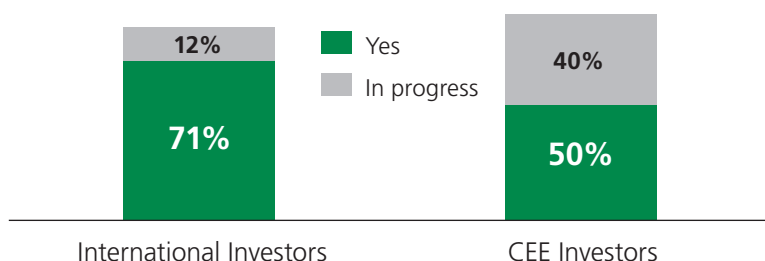
⁷Based on a survey among ten major hotel investors based or primarily active in CEE. The average ESG premium is calculated based on the mid-point of the selected ranges. The survey was conducted in mid-2023.

It is new but rising fast

ESG impacting hotel transactions is a very recent trend, yet very real. Our survey and interviews revealed that while three years ago, only a minority of investors incorporated ESG into their transaction due diligence, this has changed fundamentally over the last two years. Over 70% of respondents in our recent survey confirmed that they conduct ESG related due diligence during their acquisitions, and another 12% of investors suggested that they are currently working on adding this step to their transaction process.

In the CEE region, this trend seems to be delayed, as only half of the surveyed investors already have a dedicated ESG approach in their transaction due diligence, being established primarily in 2022. However, an additional 40% of the hotel investors in CEE are currently working on this policy, thus catching up with their international counterparts. Consequently, there is a very high chance that hotel owners will face increasing scrutiny related to their ESG status during their next disposals, even in the CEE region, especially if their target buyers are international institutional investors

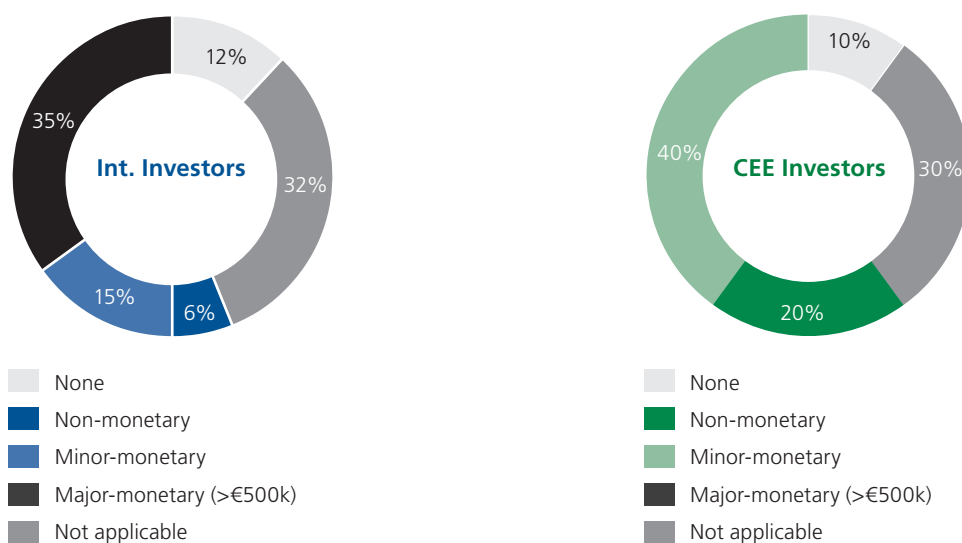
Inclusion of ESG Due Diligence in the Hotel Acquisition Process



Source: C&W Hotel Investor Surveys 2022 & 2023.

The growing emphasis on ESG is justified, given that over 50% of participants in our study encountered ESG-related challenges while conducting hotel acquisitions and disposals. For approximately 35% of investors, this resulted in significant financial consequences, surpassing half a million euros. In the CEE region, the surveyed hotel investors have not yet encountered such a major impact; however, 60% were exposed to non-financial or minor-monetary issues (below EUR 500,000).

ESG related issues during acquisition or disposition (% of respondents encountering)

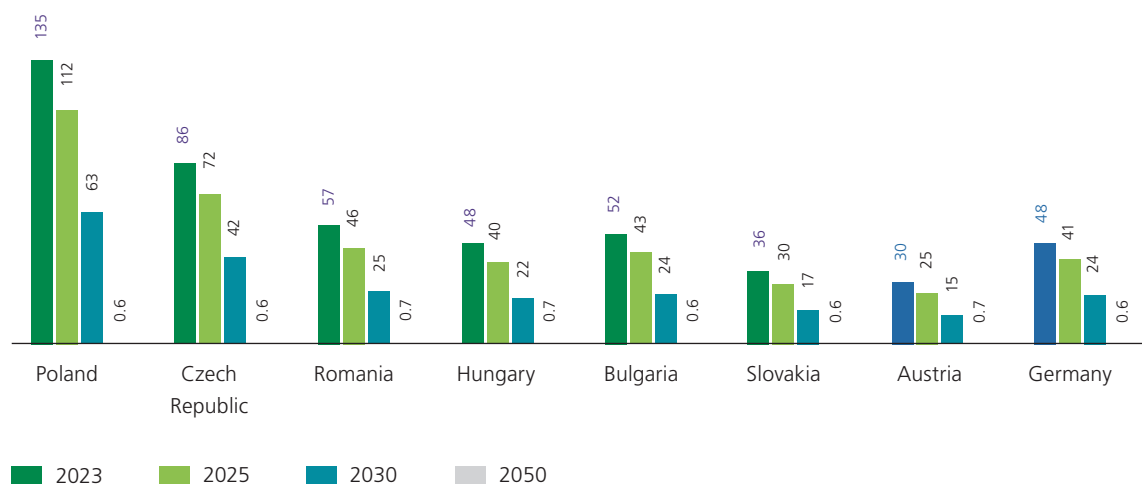


Source: C&W Investor Surveys.

What's next – A challenging but viable path towards sustainability

To comply with increasing requirements from various industry stakeholders such as investors and regulators, hotels in the CEE region will need to notably reduce their carbon footprint and energy intensity. For example, according to energy reduction pathways in the latest Carbon Risk Real Estate Monitor (CRREM) Tool, which many institutional investors use, the carbon intensity of hotels across the CEE-6 countries is expected to be reduced by approximately 17% and 53% by 2025 and 2030 respectively (against 2023 values). This, however, also assumes notable decarbonisation of the energy grid in each country.

CRREM – Carbon Intensity Pathways for Hotels (kgCO₂/m² per year)



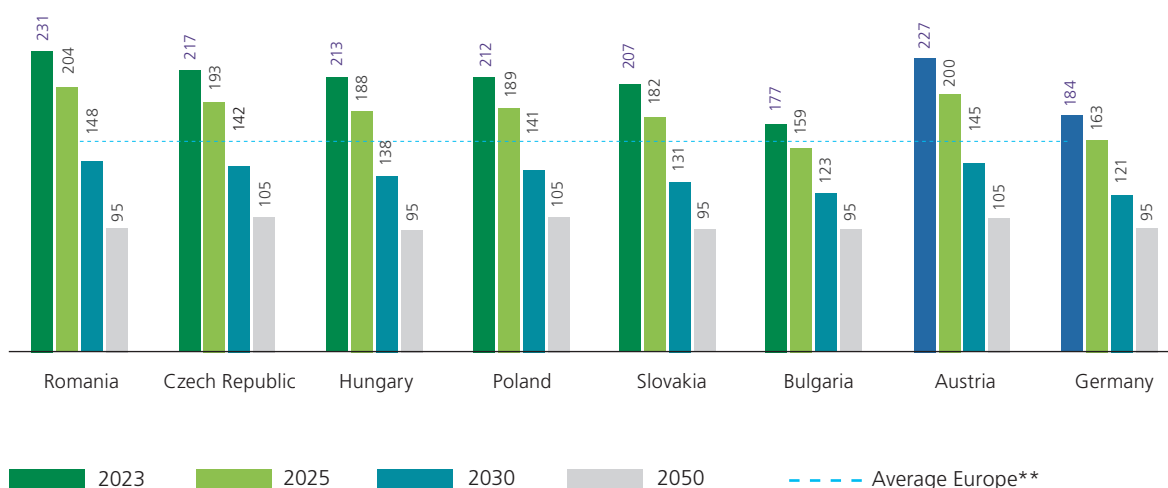
Source: CRREM Global Pathways – Version: v2.01 – 11.01.2023 (*1.5C), Note: Higher Carbon thresholds for Poland due to a carbon heavy grid that is expected to substantially decarbonise.

Given that the decarbonisation of the power grid is outside hoteliers' control, they should focus on reducing the usage of fossil fuels such as gas, switching to renewable energy, and reducing their overall energy consumption. According to the CRREM pathways, the energy intensity of hotels in the CEE-6 countries needs to be reduced, on average, by approximately 11% by 2025 and 35% by 2030 (against 2023 values), although this assumes that hotels are aligned with the 2023 energy intensity targets, ranging between 177 kWh per sq. m. in Bulgaria to 231 kWh per sq. m. in Romania. However, this might be the case only for some hotels.

The good news is that there are hotels that are notably below the required thresholds. For example, the energy intensity of the top 25% of hotels in the CHSB sample in Poland (the lower quartile) is at 125kWh per sq. m., which is below the CRREM thresholds for 2030 at 141 kWh per sq. m. Similarly, according to data from DeepKi ESG Index, the average final energy consumption in European hotels is 161 kWh per sq. m.. This is below the 2023 and 2025 CRREM thresholds in most countries. Furthermore, the top 30% and top 15% of the most efficient hotels in Europe consume final energy at 112 kWh and 84 kWh per sq. m., respectively. This is below the 2030 threshold in most countries and also below the 2050 threshold in the case of the top-15% of most energy-efficient hotels.

This above data shows that while the expected energy intensity pathways are challenging, they are achievable. Furthermore, there is also an option to generate renewable energy onsite or purchase green energy, which would reduce the carbon footprint of hotels and help them to comply with the decarbonisation pathways despite higher energy intensity.

CRREM Final Energy Intensity Pathways for Hotels (kWh/m² per year)



Source: CRREM Global Pathways - Version: v2.01 - 11.01.2023 (*1.5°C), ** Average Final Energy Consumption in European Hotels based on DeepKi ESG Index.

It is important to note that, up to now it is not compulsory for hotels to follow the CRREM decarbonisation and energy intensity pathways, which translate the ambitions of limiting global warming to 1.5°C and 2°C by the end of the century. However, many industry stakeholders publicly commit to these important objectives, including hotel operating companies, major corporate clients, and investors. According to our survey, 66% and 30% of international and CEE hotel investors, respectively, conduct a CRREM analysis during their acquisition due diligence. Accordingly, while not compulsory, hotel owners should monitor the alignment of their hotels with the decarbonisation pathways.

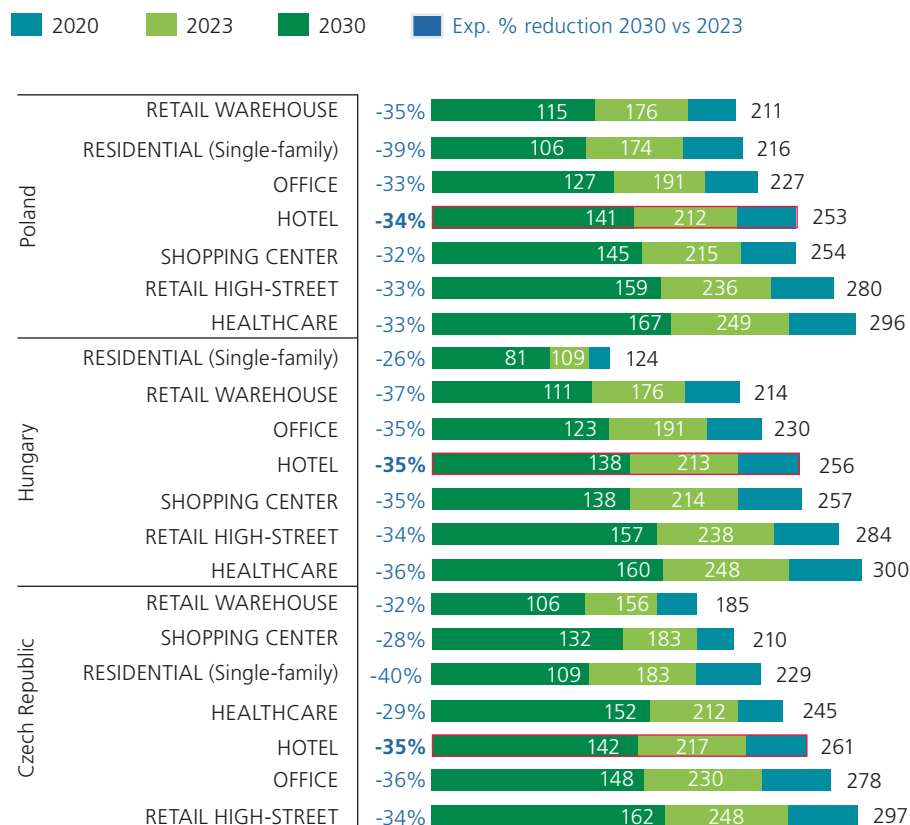
Hoteliers are not facing the challenge alone

Hotels are sometimes incorrectly marked as “the asset class with the highest energy intensity”. However, data from the Deepki ESG Index suggest that Retail and Healthcare have higher average primary and final energy consumption (kWh/m²). Additionally, the difference between Offices and Hotels is insignificant, including in CEE countries.

Also the starting data* in the CRREM tool suggest that the energy intensity of hotels is lower than for the healthcare and retail real estate (high street and shopping centres) in most countries. Plus the difference to office buildings is not very significant.

*The calculation of the starting values of sub-types is based on individual collections of average kWh/m² in the respective countries for the corresponding type of sub-use (the source is primarily GRESB and GBC data).

Final Energy Intensity Pathways – Hotels vs Other Asset Types Selected CEE Countries (kWh/m² per year)

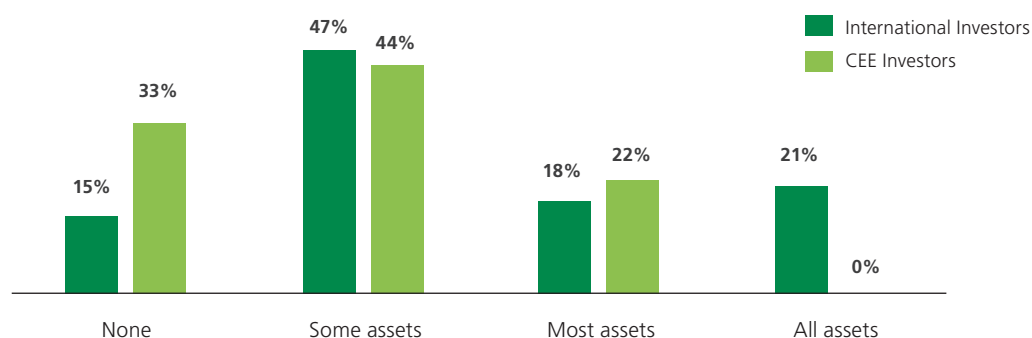


Source: CRREM Global Pathways - Version: v2.01 - 11.01.2023 (*1.5C).

Understand the status quo and take a holistic approach

Many hotel owners currently do not have a full picture of the ESG status of their assets. Only one-fifth of respondents in the C&W survey of international investors had conducted ESG audits across all of their properties. In terms of CEE investors and owners, one-third of respondents in the survey have not done a ESG audit and none of surveyed investors in CEE has audited all their assets. However, as the decisions about the most efficient way to improve the sustainability of assets are complex and can be CapEx intensive, ESG audit is the key starting point.

Coverage of Hotel ESG Audits Conducted in Last 5-Years (% of investors)

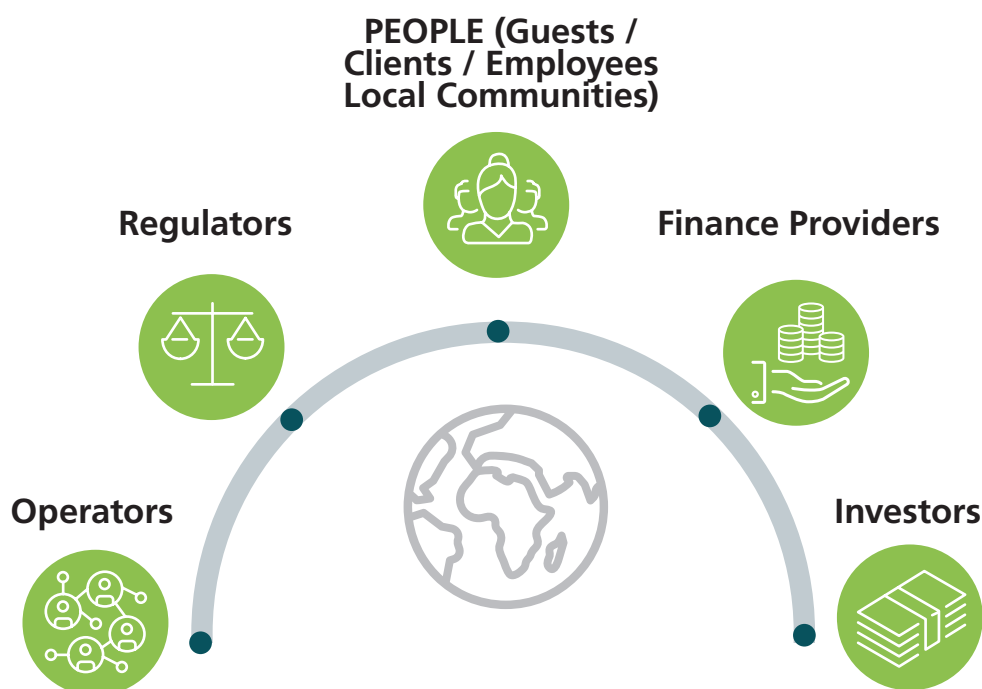


Source: C&W Hotel Investor Surveys 2022 & 2023.

Multiple roads lead to Rome

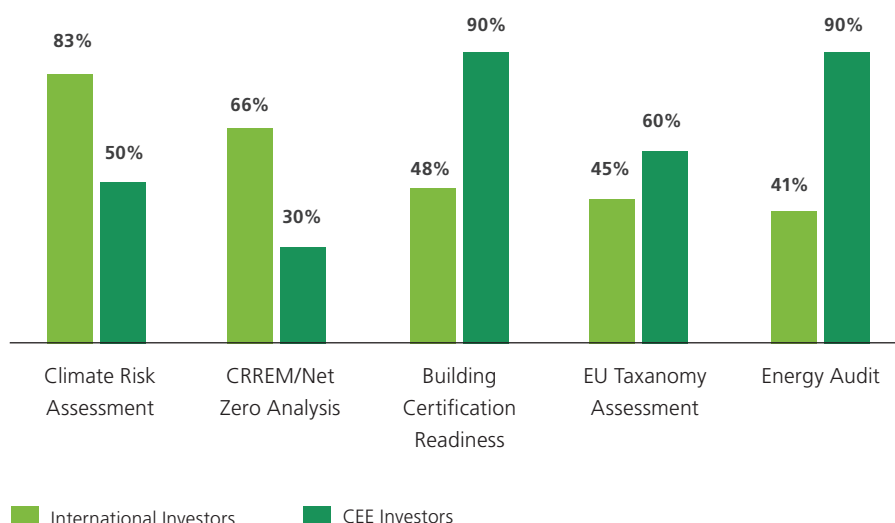
The purpose of ESG audits is to understand the key strengths and weaknesses of the assets and identify the most efficient path forward. It is important to understand that there is no one best approach that fits all, especially regarding hotels, where each property is unique and there are many stakeholders with different requirements and expectations.

Chart – Key stakeholders in hospitality



Ultimately, the best path forward will vary from asset to asset, but ideally it will satisfy the needs of most if not all stakeholders. Thus, the ESG audit should consider both real estate and hospitality specific requirements. This can include a wide range of assessments, but the Climate Risk Assessment and CRREM/NetZero analysis should be included, as these are the most frequent assessments conducted by international investors during acquisitions and help to understand the physical and transition risks associated with assets. In the CEE region, the Building Certification Readiness analysis and Energy Audit should also be considered as these are the most common assessments done by surveyed CEE investors, although this is based on a relatively small sample of respondents. While investors do not require specific hotel certifications such as Green Key or Green Globe, more than half of international investors seek them, and one-third in the CEE region. Furthermore, these certifications are recognised by OTAs, corporate clients and MICE organisers. Accordingly, the ESG audit should consider including an assessment of compliance with the hotel-specific certifications. If anything, hotels should assess their compliance against [Hotel Sustainable Basics standard issued by WTTC](#). This is a globally recognised and coordinated set of sustainability indicators that all hotels should implement as a minimum.

ESG Assessments Conducted During Due Diligence (% of respondents)



Source: C&W Hotel Investor Surveys 2022 & 2023

What does not get measured does not get done, thus hotels should not only benchmark themselves against industry peers in terms of quantitative ESG KPIs such as energy and water consumption per occupied room, but also in terms of adoption of the hotel-specific ESG best practices.

Hotel Sustainability Basics

Hotel Sustainability Basics is a globally recognised and coordinated set of sustainability indicators that all hotels should implement as a minimum. Developed by the industry for the industry, they represent the 12 actions that are fundamental to hotel sustainability. These are grouped into three key areas.

Management & Efficiency	<ul style="list-style-type: none"> – Measure and reduce energy use – Measure and reduce water use – Identify and reduce waste
Planet	<ul style="list-style-type: none"> – Linen reuse program – No single use plastic straws or stirrers – Replace single use plastic water bottles – Replace single use plastic mini toiletry bottles – Green cleaning products – Vegetarian options
People	<ul style="list-style-type: none"> – Community benefit – Reduce inequalities

For further information, visit: <https://wtcc.org/initiatives/hotel-sustainability-basics>

ESG a challenge and opportunity for hotel investors

ESG is becoming a liquidity factor for hotel real estate as it affects the pool of potential buyers and ultimate exit strategy. While only a minority of investors have specific minimum ESG requirements, many have certain preferences. More importantly, although some investors do not have strict ESG requirements, there are institutional investors, such as insurance and pension funds, that would not consider buying assets that would worsen the overall quality of their portfolio from the ESG perspective. These institutional investors typically have low capital costs and can pay aggressive yields, thus are the ultimate target buyers in the exit strategy of the most value-added and opportunistic investors. Accordingly, all owners and investors should consider investing in ESG, as it is likely to improve the value of the asset and can generate relatively high returns while helping the planet. This window of opportunity will ultimately close as people are willing to pay premiums only for rare things. Thus, **act now and take the leadership role. Investing in ESG is good for the business and the environment.**

Chart – Holistic approach to Hotel ESG Audit

*A clear product improvement roadmap based on a comprehensive assessment taking into account **real estate** and **hotel specific** ESG standards & stakeholders needs.*





Source: Andaz Prague—A Concept by Hyatt. Courtesy of UBM hotels Management

ESG relevance for the hospitality sector

ESG are standards used to measure a company's long-term impact on the environment and society. Why are they important in hospitality sector?



Key areas of ESG for the hospitality sector

Environmental



- Reducing carbon footprint
- Reducing water usage
- Reducing energy consumption
- Renewable energy sources
- Waste management
- Moving towards a circular economy
- Green lending, bonds and loans
- Green energy

Social



- Employee development and training to improve customer service and reduce employee turnover
- D&I initiatives to ensure diversity can positively impact a business's work culture
- Respect for health and safety regulations
- Commitment to local needs and respecting local customs, regulations and communities
- Focus on human rights issues in supply chain performance
- Commitment to eliminating modern slavery and implement fair labour practices
- Reduction of pay gaps

Governance



- Transparent management principles
- Codes of ethics
- Compliance and anti-corruption policies
- Whistleblowing
- Risk management strategy
- Board diversity
- Corporate digital responsibility

A timeline of the EU's key ESG legislation

NFRD (Non-Financial Reporting Directive)

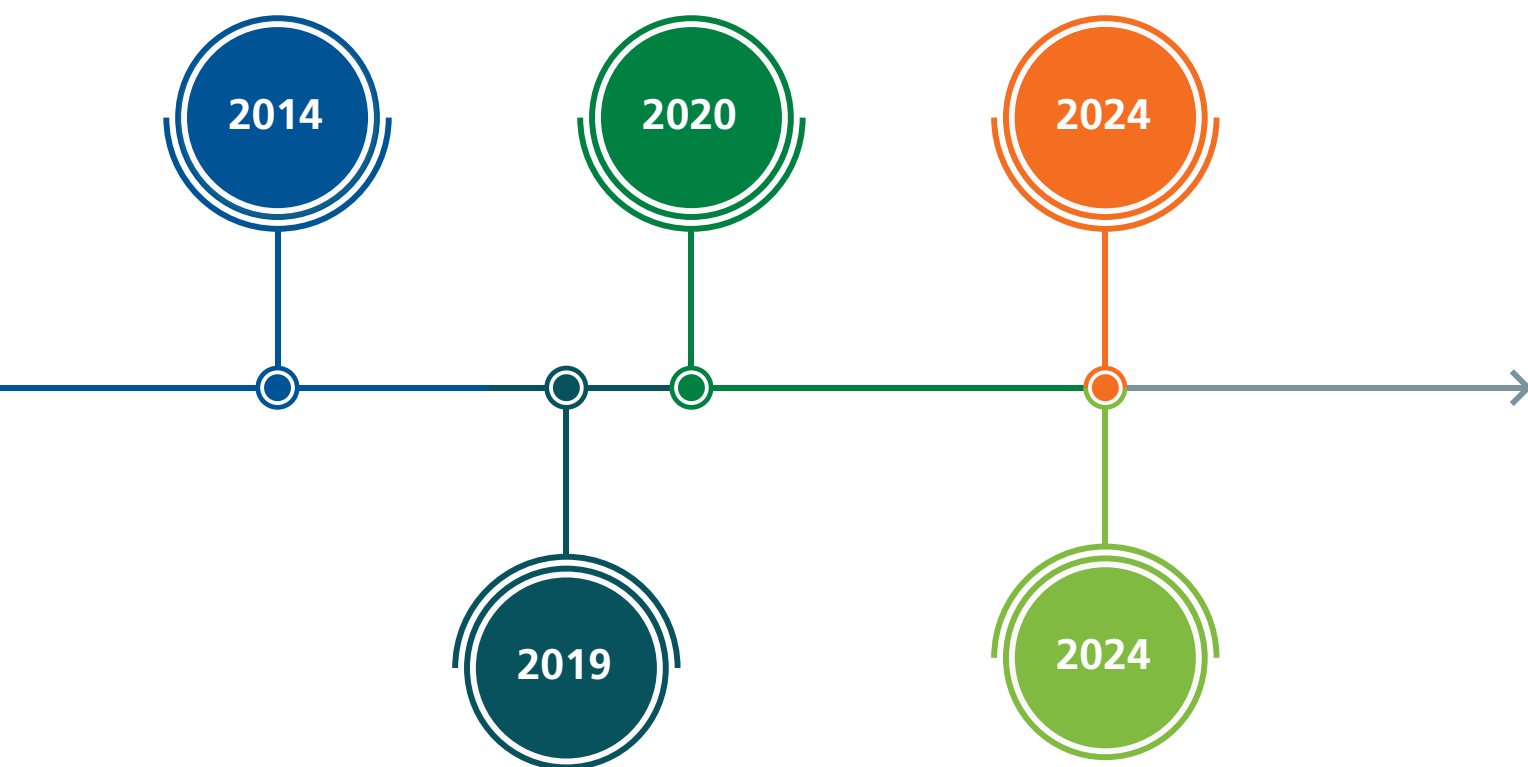
- **Status:** Active
- **Non-direct effect:** Member States must implement their own regulation
- **Sanctions:** Based on individual country legislation
- To be replaced by CSRD

The EU Taxonomy Regulation

- **Status:** Active
- **Direct effect:** Applicable directly in Member States
- **Sanctions:** Not directly, but imposed by individual country legislation

CSRD (Corporate Sustainability Reporting Directive)

- **Status:** In preparation
- **Non-direct effect:** Member States must implement their own regulation
- **Sanctions:** Not directly, but imposed by individual country legislation
- Will replace NFRD



SFDR (Sustainable Finance Disclosure Regulation)

- **Status:** Active
- **Direct effect:** Applicable directly in Member States
- **Sanctions:** Not directly, but imposed by individual country legislation

CSDDD (Corporate Sustainability Due Diligence Directive)

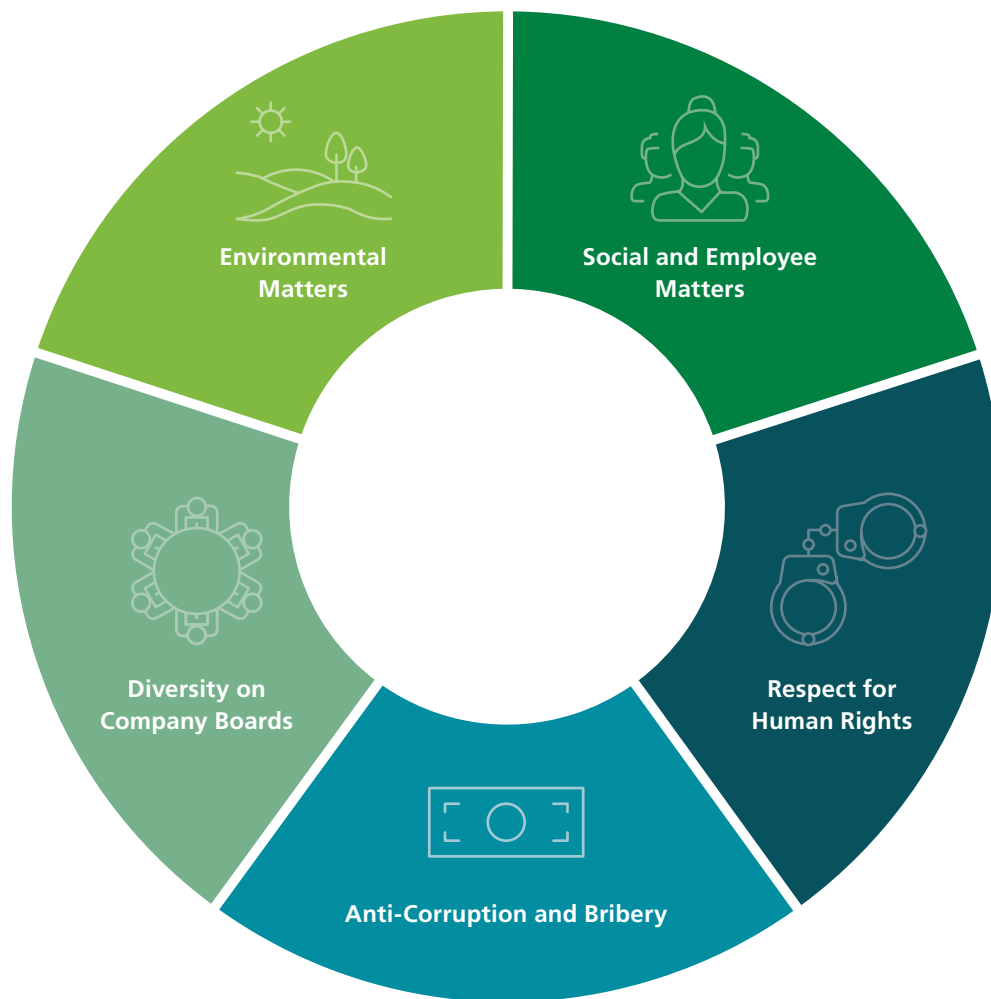
- **Status:** In preparation
- **Non-direct effect:** Member States must implement their own regulation
- **Sanctions:** Yes

The European Union is dynamically developing legislation to promote the green transformation. Several legal acts have already been adopted to strengthen the effectiveness of reporting on environmental social and governance issues. The EU is also working on several regulations to eliminate greenwashing, which is still common. In this report, we describe selected key regulations to which it is worth adapting your business now.

Spotlight on the Non-Financial Reporting Directive (NFRD)

The NFRD requires large public-interest entities to disclose non-financial sustainability information. It is complemented by the CSRD.

Under the NFRD, qualifying companies are expected to report on their applicable policies, the outcome of these policies, and associated risks and KPIs regarding the following areas:



Who must report?

- Public-interest entities: listed companies, banks, insurance companies
- Size criteria: 2/3 of the following criteria:
 - A total balance sheet of more than €20 million
 - A net turnover of more than €40 million
 - More than 250 employees

ESG Profile of Hilton Świnoujście Resort & Spa in Poland

Owner: Zdrojowa Invest & Hotels

The Hilton Świnoujście Resort & Spa is Poland's first LEED GOLD (BD+C) certified 5-star resort. The property achieved the certification in December 2022, confirming the highest standards of sustainable building construction and operation. The hotel is also using the Hilton LightStay, a comprehensive award-winning ESG management system ('GSTC-Recognised Standard') for all environmental and social impact reporting. It enables hotels to manage energy, water and waste using variables such as occupancy and weather, and to forecast future consumption. The property achieves significant energy and water consumption savings and minimizes its environmental impact.



Implementing and evolving our ESG strategy is one of our priorities because of costs, the motivation to protect the environment and the future of the planet, and is also part of our business style and philosophy with which we identify.

Jan Wróblewski - Co-Founder, Zdrojowa Invest & Hotels

As one of the largest employers in the area, the company is closely involved in the local community, funding the development of public spaces, supporting local educational and care institutions, and co-organising cultural and sporting events.

The management recruits people regardless of their appearance, gender and sexual identity, religion or beliefs. The company is among the signatories to the letter of support for the LGBTQ+ community in business, the Forbes initiative with Open for Business coalition.

The key sustainability features in the property include:

Energy

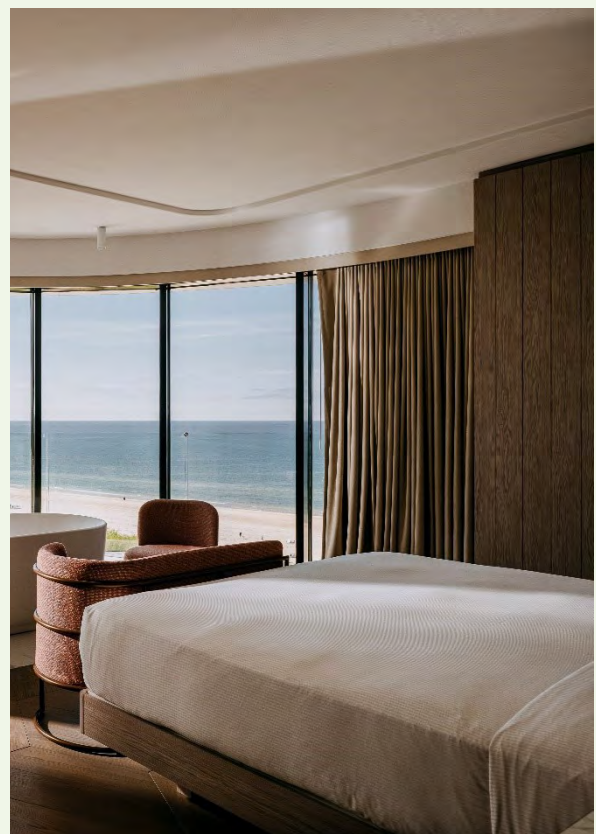
- Intelligent BMS to control temperature, ventilation (CO2 sensors detecting the number of people) and lights (intensity sensors)
- Energy-saving cooling tower air-conditioning system
- Energy saving lift
- Technical equipment heat recuperation

Water

- Pool ultrafiltration, saving water and heat
- Grey water used for watering and flushing public toilets
- Low-flow showers and tap aerators

Food, Waste and Other

- The hotel restaurants' menus are based on local produce, and organic meat dishes are served.
- Waste segregation in public spaces, paper compactor usage and eco-paper & ink-printed materials and packaging
- Eco-friendly detergents and cosmetics
- The hotel provides eco-mobility solutions and EV chargers
- The hotel participates in the Earth Hour initiative organised by the WWF



Spotlight on the Sustainable Finance Disclosures Regulation (SFDR)

The SFDR obliges the financial sector to report on ESG indicators, and imposes new transparency and disclosure obligations in respect of their management of sustainability risks.

The hospitality sector is not directly obliged to apply the SFDR, however, it will feel its impact indirectly due to the reporting obligations of investment funds with assets in the hospitality sector or through limited access to debt financing due to reporting by banks, among other factors.

The act has been in force in every Member State due to the direct application of EU regulations.

Impact on the hospitality sector:



Impeded access to finance

Banks and financial institutions are required to report ESG indicators, which will affect the scope of the projects they finance.



Reviewing debt portfolios in line with sustainable development

Financial institutions are obligated to run mandatory risk assessments based on ESG indicators – they will benefit from having strong ESG portfolios, as they present a significantly lower cost of risk – therefore they won't be keen to invest in non-green assets.

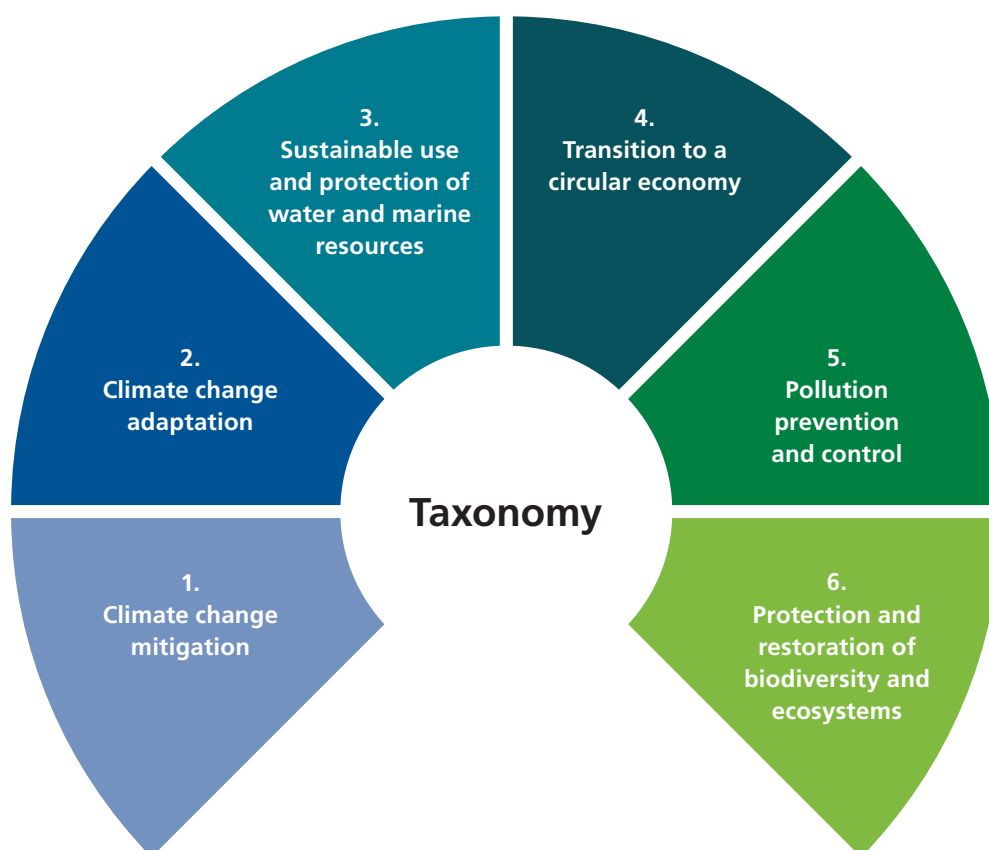


Regulatory Technical Standards

Standardising ESG verification and reporting for the entire financial sector, thus eliminating financing for investments and assets that are not in line with the European Green Deal.

Spotlight on Taxonomy

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. It guides investors, businesses and financial institutions to meet certain requirements to contribute to environmental protection. The EU Taxonomy Regulation is a cornerstone of the European Commission's Action Plan on Financing Sustainable Growth and is integral to the EU's broader Green Deal, aiming to make Europe the first climate-neutral continent by 2050.



Criteria for Classification:

For an economic activity to be considered sustainable, it must:

- Contribute substantially to at least one of the six environmental objectives.
- Do no significant harm (DNSH) to any of the other objectives.
- Meet certain minimum safeguards (e.g., respecting human and labour rights).

Minimum Standards & Do No Significant Harm (DNSH) Principle: The idea behind “Minimum Standards” and the DNSH principle is to ensure that while an economic activity might contribute positively to one environmental objective, it shouldn't be causing considerable harm to any of the other objectives. For example, an activity that contributes to climate change mitigation (like producing renewable energy) shouldn't cause significant harm to biodiversity (like destroying a crucial habitat).

The Taxonomy focuses on environmentally sustainable activities. It does not provide guidance on (S) social and (G) governance aspects of the ESG policies. However, the EU is currently preparing a “Social Taxonomy” – classification system for economic activities that significantly contribute to the achievement of social goals.

Spotlight on the Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD) has been proposed to complement the Non-Financial Reporting Directive (NFRD) to address several identified shortcomings and gaps in the latter and to further align corporate reporting with the European Union's broader sustainability objectives, particularly the European Green Deal.

The reasons for the introduction of the CSRD include:

Broadening the Scope

- The CSRD applies to all large companies, whether they are publicly listed or not.
- Size criteria: 2/3 of the following criteria
 - A total balance sheet of more than €20 million
 - A net turnover of more than €40 million
 - More than 250 employees

Standardisation of Reporting

- Companies in the CSRD's scope will be required to report on sustainability matters such as their environmental impact, social issues, treatment of employees, respect for human rights, anti-corruption and bribery issues, and governance.
- This reporting will include both the company's actual impact on these areas and the risks they pose to the company.

Alignment with the EU Taxonomy

The CSRD will require companies to report on their alignment with the Taxonomy, showing how and to what extent their activities meet these criteria.

Digitalisation of Reporting

Under the CSRD, companies will be expected to report sustainability information in a digital format, making the data more accessible and usable.

Enhancing Audit and Assurance:

The CSRD proposes assurance requirements for the reported sustainability information to ensure its reliability.



Universal reporting

The reporting obligation will be extended to cover not only large, but also small and medium-sized enterprises.



Wide intermediate impact

Reporting obligations will force the collection and disclosure of data from the entire supply chain as well as the company itself.



Targets are key

In addition to the disclosure of current data, companies are required to disclose short, medium and long-term strategies for each indicator.



ESG report as important as financial report

The report will be compulsorily audited and based on guidelines developed by the European Commission. It will be subject to mandatory publication.



Spotlight on the Corporate Sustainability Due Diligence Directive (CSDDD)

CSDDD will obligate companies to perform environmental and human rights due diligence.

Currently being processed at the European Union level, the act is expected to be adopted by the EU in 2024.

The directive will have to be implemented into national legal systems.

The latest version of the act provides for sanctions, including measures such as revealing which companies do not comply with the rules, withdrawing the company's goods from the market or fines of at least 5% of global net turnover. Non-EU companies that do not comply with the rules be excluded from public procurement in the EU.



Environmental and human rights due diligence throughout the supply chain

The hospitality sector in practice will be required to trace the supply chain in detail from both the asset, construction and operation stages.



Obligation for all companies operating in the EU

Obligatory for companies established in the EU (above the relevant thresholds) and those established outside but operating in the EU.



Disclosure

Submission of an annual report summarising the fulfilment of the CSDDD's duties. The European Parliament's amendments to the content of the CSDDD significantly increased the number of entities subject to the directive, therefore a significant part of the hospitality sector may be directly subject to the directive and other entities will be obliged to provide data to their partners.



Genuine verification and complaint rights for everyone

Standardising ESG verification and reporting for the entire financial sector, thus eliminating financing for investments and assets that are not in line with the European Green Deal.



Green Clauses

As so many areas of the economy begin the journey of transitioning to lower emissions, the hospitality sector in CEE today faces one of its greatest challenges. Hotel builders, owners and operators must implement a raft of changes to cut carbon. But how exactly will these changes impact businesses? While owners will want their hotels to be able to boast the most impressive green credentials, operators will have to do all they can to minimise any impact on operating profit. Thus, there is scope for tension between owners and operators. Ultimately, the devil will be in the detail, as agreements and other contracts will need to be even more precise than they have been up to now. Below, we provide you an overview of the green clauses that hotel owners and operators might consider in their operating agreements (leases and management agreements) and we offer a different perspective that they might have.

Coordination to improve environmental performance of the hotel



What the provision covers

- A general agreement between the parties to monitor and promote the environmental performance of the hotel.
- Establishment of a regular meeting forum to discuss data sharing, energy performance of the hotel, initiatives and strategies to improve environmental performance.



Owner's considerations

- Owners who own several hotels may find it time consuming to hold regular meetings with operators.



Operator's considerations

- Operators may be concerned that owners may use this forum to increase their influence over the operation and management of the hotel.
- Operators may wish to make it clear that any decision made in the forum will not alter the lease.

Setting sustainability objectives / Complying with environmental certifications



What the provision covers

- Agreement on compliance with the requirements of an existing environmental certificate or the requirements for obtaining a desired environmental certificate.
- Reporting of data required to obtain or maintain certification.
- Agreement on costs and responsibilities to meet objectives.
- The consequences of failing to maintain existing certification.



Owner's considerations

- Building certificates are a snapshot in time, there should be no obligation to comply with changing requirements of the certificate continuously, but to maintain the status on the basis of which the certificate was granted.
- Owners want to have control over which certificates the building will seek in the future.
- The owner's decision on sustainability targets or compliance with environmental certification must be respected by the operator.



Operator's considerations

- The owner should endeavour to satisfy the future corporate sustainability targets of the Operator.
- The owner's sustainability targets or aspirational certificates should be achieved in a way that minimises disruption to the operator's business, and no measures should be imposed that cause undue hardship to the operator.



Source: Julius Meinl Living, The Julius

Attaching a sustainability code



What the provision covers

Such code to regulate, eg.:

- Environmental responsibility measures and restrictions
- Social responsibility
- Guest engagement
- Data sharing and transparency



Owner's considerations

- In case of management contracts, impact on operating costs and profitability.
- Compliance with the green criteria of lenders and investors or potential investors.



Operator's considerations

- Budgeting and cost sharing.
- Any need for capital investments for complying with the code.
- Ability to improve guest satisfaction and hotel reputation.
- The sustainability level in line with the brand policy changes.
- Training needs and requirements for additional staff or resources.

Data sharing and metering



What the provision covers

- Define the scope of data to be shared.
- The confidentiality and security of the shared data.
- The scope to follow changing legislation.
- Metering:
 - what meters are to be installed,
 - who is responsible for the installation, calibration and reading of the meters,
 - reporting requirements of the metered data, and
 - dealing with discrepancies and disputes.



Owner's considerations

- The right to require expansion of metering and reporting obligations if that is required to comply with the owner's sustainability undertakings, ESG reporting obligations, investors' or bankers' requirements in the future.



Operator's considerations

- Commercially sensitive data is not used or disclosed by the owner in any way that may reveal the commercial secrets of the operator.
- Capital costs and costs of reading and reporting related to expanded metering required by the owner should be shared fairly.

Juerg Zwahlen
Partner
Mosaic House



Source: Mosaic House, Prague. This page: Mosaic House exterior

Hotel MOSAIC HOUSE in Prague is one of the first “Green Hotels” in Prague. When opening in 2010, it set new standards in energy saving for historic buildings: With an intelligent combination of many available technologies, some of them first time done in the Czech Republic or among the first worldwide. In 2020 the hotel was completely refurbished to a higher standard and further green improvements were done. Juerg Zwahlen, Swiss, Developer and Co-owner of the building and the operating company has answered our questions.

In your opinion, what makes MOSAIC HOUSE sustainable?

The building uses significantly fewer resources than a similar Hotel built and renovated according to normal standards. During the development process more than 13 years ago, we decided to systematically focus on the savings of the main resources: energy (electricity & gas), water and land.

How do you save Energy?

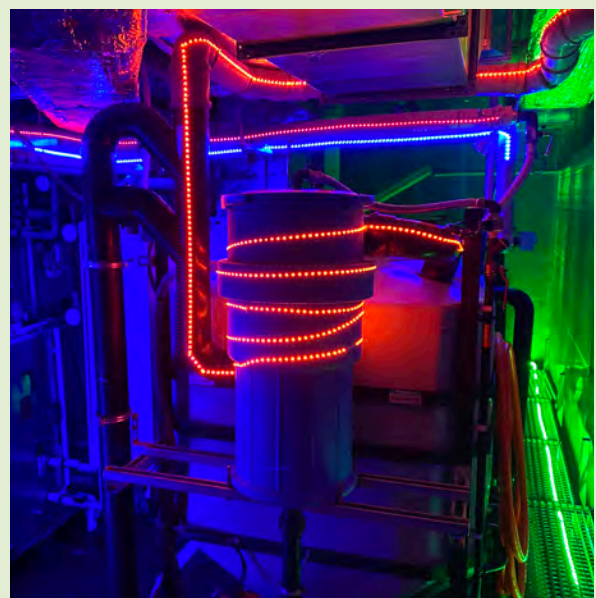
Saving electricity and gas is made by so-called “passive measurements”, such as improved insulation on façade and windows, intelligent sun protection, energy saving on each and every small item including 100% LED, and many more. This is combined with “active measurements” where the building produces energies, including the recuperation of energy which is in used air, used water and the production of energy on the roof. In total the building combines more than 80 individual measurements; all this must be combined with an intelligent Building Management System (BMS).

How do you save Water?

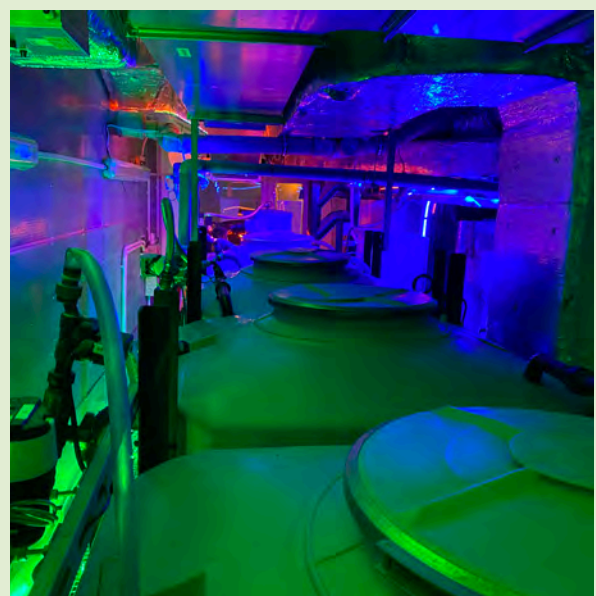
Water is an important resource, the time has already come and most of the players realise the value of water; in certain regions water is rare and will definitely become more expensive. Hotels have large water consumption compared to other building categories. Again, it is a combination of



1



2



3

Source: Mosaic House, Prague: 1. Mosaic House rooftop solar panels, 2. and 3. The recuperation of the grey water system.

passive and active measurements reducing consumption. Passive: wherever you have water consumption, reduce it to the max, e.g., with “low-flow” systems in showers. The active side is one of our highlights, as we installed in MOSAIC HOUSE the first grey water system in the Czech Republic and the second worldwide. This combines cleaning & recycling wastewater with heat recuperation – part of the wastewater from showers is collected, cleaned and used in a second circuit to flush toilets. Since people take warm showers, we recuperate during this process the energy and use it for heating water.

What do you mean with “saving Land”?

Land and green nature is a rare good, especially in cities. Land sealing is a big issue with many negative consequences on heat and is a big factor in floods during heavy rains. When we bought the property, 100% of the plot was built on and there was zero green space. Not one green spot. Nowhere. Today 50% of the property is completely green and re-natured. 20% of the space we use to produce energy and 20% is actively used space for our guest (Terraces). We have the last 10% which we want to use to produce more energy. This will happen soon. Further, we developed the square in front of the house, planted trees and cared for them, so they grew fast and stayed healthy. We also have an additional investment, compared with the saving of water in various places, which the birds and insects need. Without water, nature will not come back. A nice side effect of really green roofs is significantly improved insulation, and in summer you will get a shadow on top.

How much savings you have in operations

Since each building is unique and the reconstruction of protected buildings is even more so, this is hard to say. But we know from comparison with other hotels and analysis of key data that our cost for electricity, water and gas per room is down almost 50% compared to normal hotels.

You want to be “Energetically Carbo-neutral”, please explain:

The remaining electricity we need, we buy now for 13 years from renewable sources and in the past we bought biogas. Some years ago we lost our supplier and since then we have compensated this with a reforestation program. All this is not perfect, but we are currently in the permit process to build a photovoltaic plant outside Prague, which will be owned by the hotel and shall produce more energy than we use. This is also not perfect, but in historic buildings in a city centre you have limits, especially in available space. But better this than nothing at all.



1

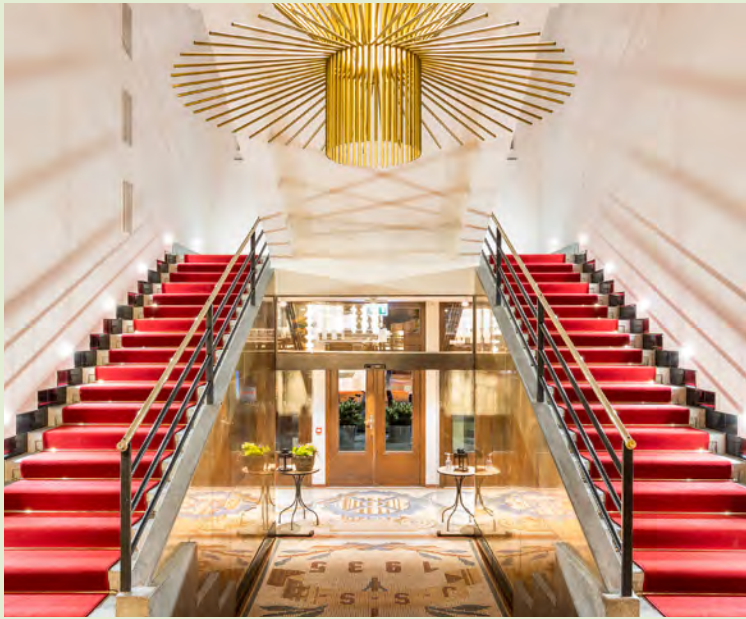
Can you tell us something about the economy of your green initiative?

Before starting construction, we made a calculation that the additional investment, compared with the saving of energies, had a return on investment of 6-8%. It was roughly the same as the yield of the real estate investment. Today, with higher energy and water prices it started to pay back even more. It definitely is an advantage in fixed costs compared to our competitors.

Is there an added-value in marketing? How do you take advantage of this?

We did all of this simply because we have a clear approach: If you can do business in a better way and still can make money, then we do it. If you can get a long-term advantage, then it is a must. We are a family business and we think in generations. How could I explain to my grandchildren that we made money the dirty way if it was possible to be successful in a better way? I can't change the world and do not even want to try it. Sustainability is in our DNA, but we are no missionaries, our company is a business.

We do not push and it is our goal that our guests will not even notice that they are in a sustainable hotel. Since selling a hotel is an online business, it is quite easy that a guest searching for a green hotel can find us and a guest that does not care will not be bothered by this. We want both types of guests visiting us. But with all the different channels it is hard to quantify how many guests decide on our hotel. I would estimate it at 5%. It does not sound like much, but 5% more demand makes a big difference. Combined with the lower fixed costs it definitely makes sense.



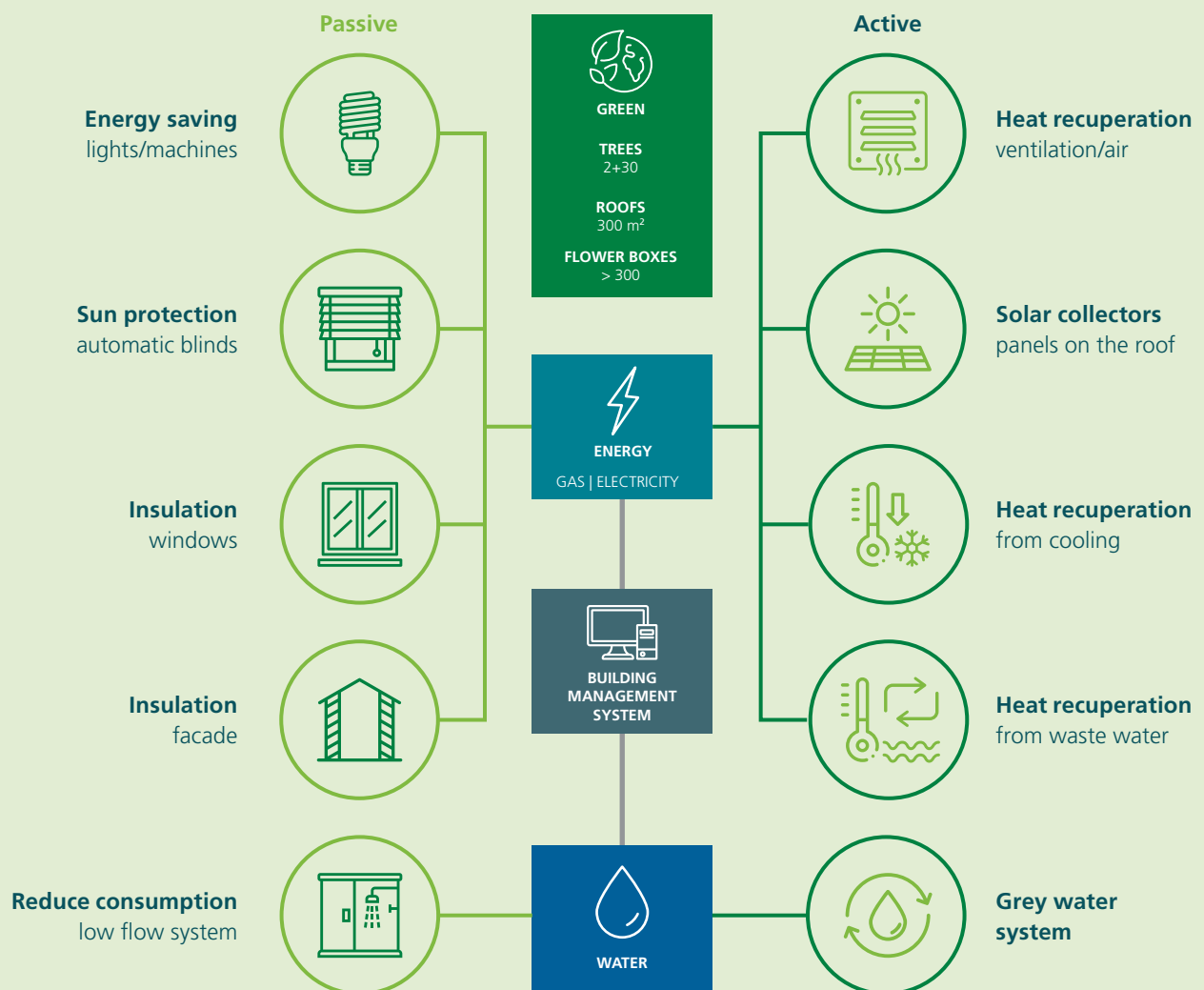
2



Source: Mosaic House, Prague. 1. Lobby, 2. Staircase, 3. Reading zone.

3

Key sustainability features in Mosaic House, Prague



Cost recovery for energy efficiency upgrades



What the provision covers

- The process for seeking the other party's approval to energy efficiency upgrade initiatives.
- The rent or management fee adjustment is based on savings realised from owner's upgrades.
- The recovery of costs in case of upgrades by the operator.
- Recovery of cost (IRR).
- Collecting and sharing data showing savings achieved as a result of upgrade, audit and verification.
- Obligations to purchase energy produced by onsite renewable energy development which may be made available by the owner's investment.



Owner's considerations

- The operator should not have the right to force energy efficiency improvements on the owner by unilateral decision.
- The cost recovery rights of the operator for its upgrade do not impair profitability and the ability to comply with obligations to the bank.
- If the owner wishes to carry out upgrades, such initiative may only be refused by the operator in very limited cases.



Operator's considerations

- Ensuring that the owner's cost recovery does not impair profitability.
- Owner's upgrades are reasonable and do not unnecessarily impair the operation of the hotel.
- Upgrades required to comply with brand/company policy or efficiency targets should not be refused by the owner.
- Upgrades by the operator shall be recoverable and in case of early termination other than operator default, non-recovered costs shall be fully reimbursed.

Green energy purchase obligation



What the provision covers

- Specify obligations to purchase green energy.
- Definition of green energy.
- The percentage of energy consumption to be covered from green energy.
- Reporting and auditing, sanctions of non-compliance.



Owner's considerations

- Verifying the accuracy of reporting.
- Green energy purchase obligations should not impair the profitability of the managed hotel.



Operator's considerations

- Availability of green energy at a reasonable price.
- Green energy ratio complies with brand/company policy.
- For HMA sharing the excess cost arising from the purchase of green energy (adjusting the basis of the management fee).

Training and sharing best practices



What the provision covers

- Specify training requirements that the hotel staff should comply with.
- Regular consultation to share best practices subject to confidentiality undertakings.



Owner's considerations

- The cost and time requirements of training programs are not excessive.



Operator's considerations

- Control over the cost of training requirements.



Restrictions to fit-out works



What the provision covers

- The parties shall comply with green building standards and certifications, such as LEED or BREEAM, during any fit-out or renovation works.
- No works that would result in impairing the environmental status of the Hotel are permitted. If such adverse effects are unavoidable, the operator shall take suitable measures to compensate for such adverse effects (e.g. by acquiring regulated emissions certificates to compensate for CO2 emissions).
- Fit-out with materials which, from a life-cycle perspective, must be regarded as environmentally friendly and economic with regard to resources.
- Fit-out should be designed in a way to minimise the need for refurbishment redecoration at the end of the lease.
- Use energy-efficient materials and equipment, including lighting fixtures, HVAC systems, and appliances to minimise energy consumption.
- Install water-efficient fixtures, such as low-flow faucets and toilets, to promote water conservation.
- Develop a waste management plan for the fit-out works, including recycling and proper disposal of construction waste materials.
- The impact of the fit-out to the environment should be monitored throughout the process and reported to the other party regularly.



Owner's considerations

- The owner may be concerned about the cost, availability and time requirement of the eco-friendly fit-out. An alternative solution shall be found if the envisaged solution is not available on reasonable terms (cost-benefit analysis).



Operator's considerations

- Restrictions to fit out shall not limit the operator to comply with changes in brand standards and to adapt the fit-out of the hotel to market demand.
- Clear guidance on the acceptable fit out by reference to standards or detailed description and technical dispute resolution.

Cleaning requirements



What the provision covers

- Use environmentally friendly and non-toxic cleaning products.
- Adoption of sustainable cleaning practices to minimise water and chemical usage during cleaning.
- Implementation of proper waste management practices for cleaning activities, including recycling, proper disposal of hazardous materials, and minimising the use of single-use cleaning supplies.



Owner's considerations

- The owner may be concerned about the costs of the environmental practices.



Operator's considerations

- Operator may be concerned about the availability of materials.
- The operator shall provide training and education to cleaning staff regarding sustainable cleaning practices, proper use of cleaning products, and waste management techniques.
- The operator shall regularly monitor and evaluate the effectiveness of the green cleaning program, including conducting audits, tracking resource consumption, and implementing continuous improvement initiatives.

Waste management and recycling



What the provision covers

- Establish and maintain a comprehensive recycling program for the hotel, including the separation and proper disposal of recyclable materials such as paper, plastic, glass, and metal.
- Minimise the use of single-use items, such as disposable cutlery, cups, and packaging, and promote the use of reusable or biodegradable alternatives where feasible.
- Procure and use FF&E to extend the useful life of these items, facilitate selling all usable items to be replaced at a second hand market, rather than disposing and creating waste.
- Implement guest education programs to raise awareness about waste reduction and recycling initiatives.



Owner's considerations

- Compliance with the requirements of the certificates and investor requirements and targets.
- Detailed information about the waste management status.



Operator's considerations

- Cost impact of sustainable waste management.
- Sharing extra costs that are required to comply with the owner's requirements.
- Compliance with brand requirements (frequency of the replacement of FF& E).

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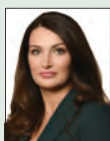
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Source: Anantara New York Palace, Budapest. Courtesy of Covivio Hotels

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