



CONSIDERATE

Smarter CapEx Planning for Hotels: How to Prioritise Investment and Maximise ROI

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In the contemporary hospitality investment landscape, the traditional approach to allocating capital is no longer sufficient to protect margins or ensure long-term competitiveness.

For decades, hotel owners and asset managers have operated under a paradigm where Capital Expenditure (CapEx) was viewed primarily as a defensive necessity; a "housekeeping" cost required to maintain brand standards or a reactive outlay to replace failing equipment.

However, the convergence of **extreme energy price volatility, tightening carbon regulations, and a shift in the debt markets toward "green" financing** has necessitated a fundamental reclassification. We must move from a mindset of **"Expenditure"** to one of **"Strategic Investment"**.

As a specialist consultancy focused exclusively on the hospitality sector since 2012, Considerate Group has observed that the most resilient assets are those where sustainability is not an **"add-on"** but a core driver of the financial business case.

Our mission is to bridge the chasm between the technical engineering of the plant room and the financial rigor of the boardroom. By providing "practical, measurable, and commercially relevant" advisory services, we enable stakeholders to treat building performance as a primary lever for enhancing Net Operating Income (NOI).

The new benchmark for hotel operations is the ability to maintain premium guest experiences while minimising the "Variable Loads" that erode profitability. As we navigate a climate of rising operational costs, the ability to prioritise capital based on data-led insights (rather than "gut feeling") is the difference between asset appreciation and value destruction.

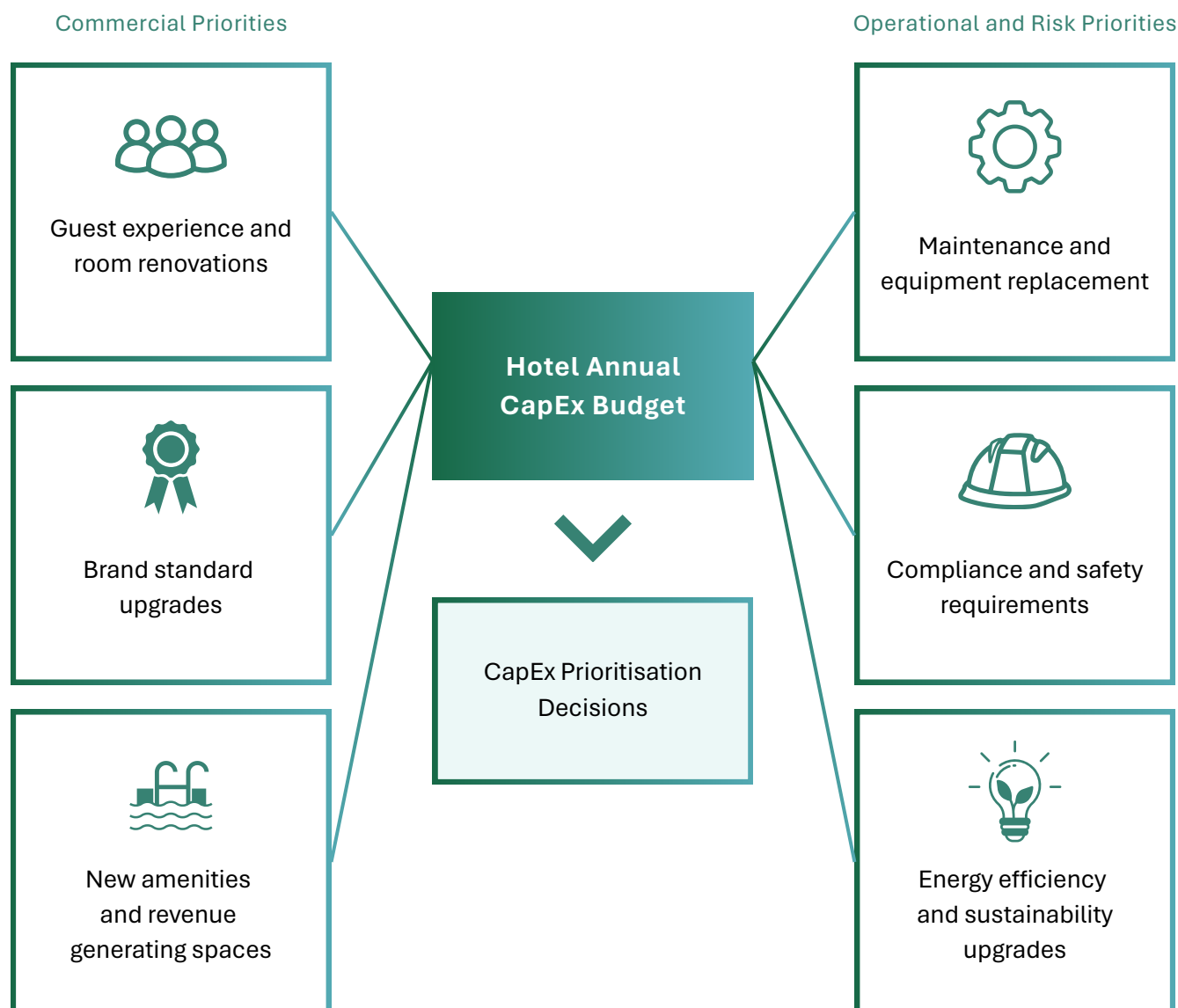
Central to this approach is Con-Serve™: a specialised ESG data management platform designed to help hospitality portfolios navigate decarbonisation. It translates complex asset data into clear insights to drive performance and unlock value.

This report uses insights from a recent webinar hosted by Considerate Group to outline how hotel leaders can improve their capital expenditure planning. It provides a complete guide on how to prioritise investments to **protect asset value and maximise financial returns**.

The Hotel CapEx Dilemma: Navigating Competing Demands

Hotels are arguably the most "**capital intensive assets**" in the real estate universe. Unlike commercial offices or retail spaces, hotels are living, breathing 24/7 operations with complex mechanical systems that must provide immediate comfort to a rotating population of guests. This operational intensity creates a relentless demand for reinvestment, yet capital remains a finite resource. The strategic risk in this environment is the misallocation of funds, often driven by a fundamental misunderstanding of what actually builds asset value.

Why is CapEx prioritisation so difficult in hotels?



A persistent challenge in hotel asset management is the "visibility bias." We often see annual budgets are pulled in two opposing directions. On one side are "Commercial Priorities", the visible, guest-facing upgrades like room renovations, lobby redesigns, and new food and beverage (F&B) concepts.

These are favored because their impact on Guest Satisfaction Scores (GSS) and Average Daily Rate (ADR) is perceived as immediate. On the other side are "Operational and Risk Priorities", the back-of-house infrastructure like HVAC systems, Building Management Systems (BMS), and building envelopes.

Because a guest rarely praises a highly efficient chiller, these critical technical upgrades are frequently deferred. This is a false economy. **Neglecting the "technical marrow" of the building eventually manifests as guest-facing failures: poor air quality, inconsistent hot water, or excessive noise.**

By the time an aging HVAC system begins to impact guest comfort, the window for proactive, cost-effective replacement has closed, and the asset is forced into an emergency "responsive mode" where costs are higher and operational downtime is guaranteed.

Stakeholder Analysis: Bridging the Priority Gap

The complexity of prioritisation is further exacerbated by the conflicting motivations of the three primary stakeholders involved in any hotel asset.

Different stakeholders, different priorities:

Owner / Investor	Operator	Brand / Management Company
Focus: Asset value and risk • Asset value protection • Exit strategy • Regulatory exposure • Long-term capital planning	Focus: Operational efficiency • Operating costs • Maintenance reliability • Staff productivity • Guest service delivery	Focus: Guest experience and market positioning • Brand standards • Guest satisfaction • Product consistency • Market positioning

Owners and investors typically focus on asset value and risk exposure. They care about long-term planning and exit values. Operators on the other hand are much more focused on day-to-day performance. They care about operating costs and staff productivity. Brands focus mostly on product consistency and the guest experience.

This friction often results in a **"paralysis of the plant room"**, where necessary energy-efficiency decisions are delayed because no single party can definitively prove the ROI across all three sets of priorities. To break this cycle, asset managers must utilise empirical data to show that a technical upgrade is not just an engineering fix, but a financial instrument that satisfies the Investor's risk appetite, the Operator's cost constraints, and the Brand's comfort standards.

Mapping Investment Strategy to Asset Life Cycle

The "Time Horizon" of an investor is the ultimate arbiter of CapEx priorities. **A private equity fund looking for a 3-to-5-year "Value Add" exit will view building performance through a different lens than a family office or pension fund with a 20-year "Long-Term Hold" perspective.**

Understanding where an asset sits in its life cycle is essential for aligning sustainability upgrades with the eventual exit strategy.

Investor strategy shapes CapEx priorities

Short-term ————— Long-term

Distressed / Turnaround	Value Add	Core Plus	Long-Term Hold
Objective: Stabilise the asset Typical CapEx drivers: • Critical system failures • Regulatory compliance risks • Operational instability • Removing major future liabilities Talking point: Investments are made to make the asset operational and financeable.	Objective: Improve performance and position Typical CapEx drivers: • Operating cost reduction • Targeted building improvements • Improving energy performance ratings • Repositioning the asset for resale Talking point: Investments are made to increase NOI and improve asset attractiveness to buyers.	Objective: Improve asset quality and resilience Typical CapEx drivers: • Major system upgrades • Electrification or HVAC • Modernisation • Reducing operational risk • Improving long-term efficiency Talking point: Investments improve operational stability and long-term performance.	Objective: Future-proof the asset Typical CapEx drivers: • Decarbonisation strategy • Deep retrofit programmes • Alignment with future regulation • Long-term operating cost optimisation Talking point: Investments focus on protecting long-term asset value.

Stage I: Distressed / Turnaround

In this stage, the objective is stabilisation. The asset is often suffering from "operational instability" or critical system failures. While the instinct may be to "patch and mend," this is the prime moment to remove major future liabilities. For example, replacing a failing, carbon-intensive boiler with a high-efficiency heat pump system doesn't just fix a failure; it makes the asset "financeable" in a market where lenders increasingly shun "brown" assets.

Stage II: Value Add

The "Value Add" strategy focuses on aggressively improving NOI to drive capital gain. Here, sustainability is a high-yield lever. By improving the hotel's Energy Performance Certificate (EPC) or BREEAM rating during this phase, the owner expands the pool of potential buyers to include institutional funds with strict ESG mandates.

Every **£1** saved in OPEX through better building performance translates directly into a higher sale price, often at a 15x multiplier.

Stage III: Core Plus

Core Plus investors focus on yield preservation and resilience. At this stage, the strategy shifts toward "modernisation." This includes electrification and the integration of sophisticated BMS controls. The goal is to optimise the building's "Base Load" (the energy consumed when the hotel is at low occupancy) to ensure that margins remain robust even during market downturns.

Stage IV: Long-Term Hold

For long-term owners, the priority is "Future-Proofing." This involves deep retrofits and alignment with the Carbon Risk Real Estate Monitor (CRREM) 1.5°C pathway. Failing to invest in decarbonisation now risks the asset reaching a "stranding point," where the cost of carbon penalties and the decline in marketability lead to a precipitous drop in value.

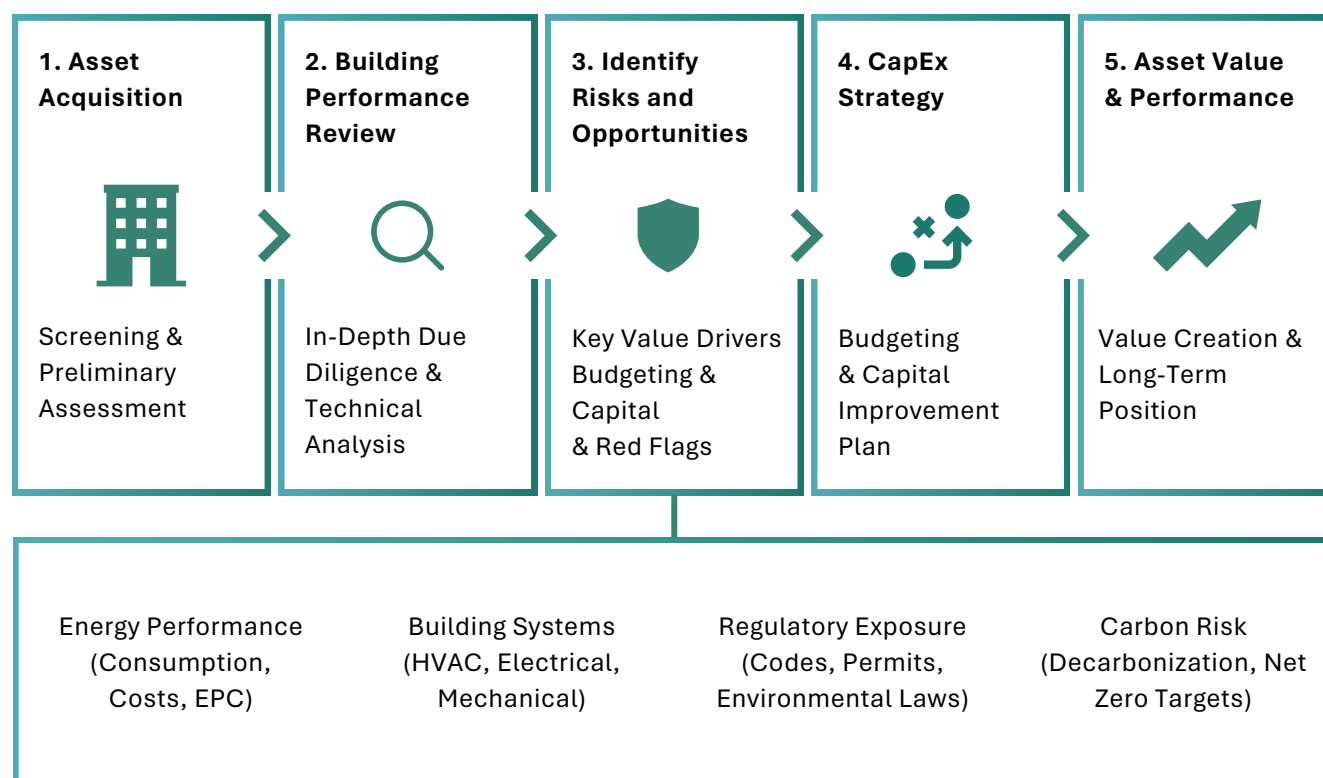
Acquisition Insights: Building Performance Due Diligence

The most critical window for strategic CapEx planning is the acquisition phase. Conventional financial due diligence often misses "technical red flags." A professional Building Performance Review should identify:

- Aging HVAC Infrastructure: Systems nearing the end of their 15-to-20-year life cycle.
- Regulatory Exposure: Impending local laws regarding carbon emissions or minimum energy efficiency standards.
- Stranding Risks: When the building's carbon intensity will exceed Paris Agreement-aligned targets.
- IEQ Liabilities: Humidity or mold issues caused by poor "Latent Heat" management.

By identifying these "hidden liabilities" early, investors can bake the required capital into the initial acquisition price or the Year 1 capital plan, rather than discovering a £500,000 chiller failure in Year 3.

ESG Due Diligence: Identifying risk and opportunity



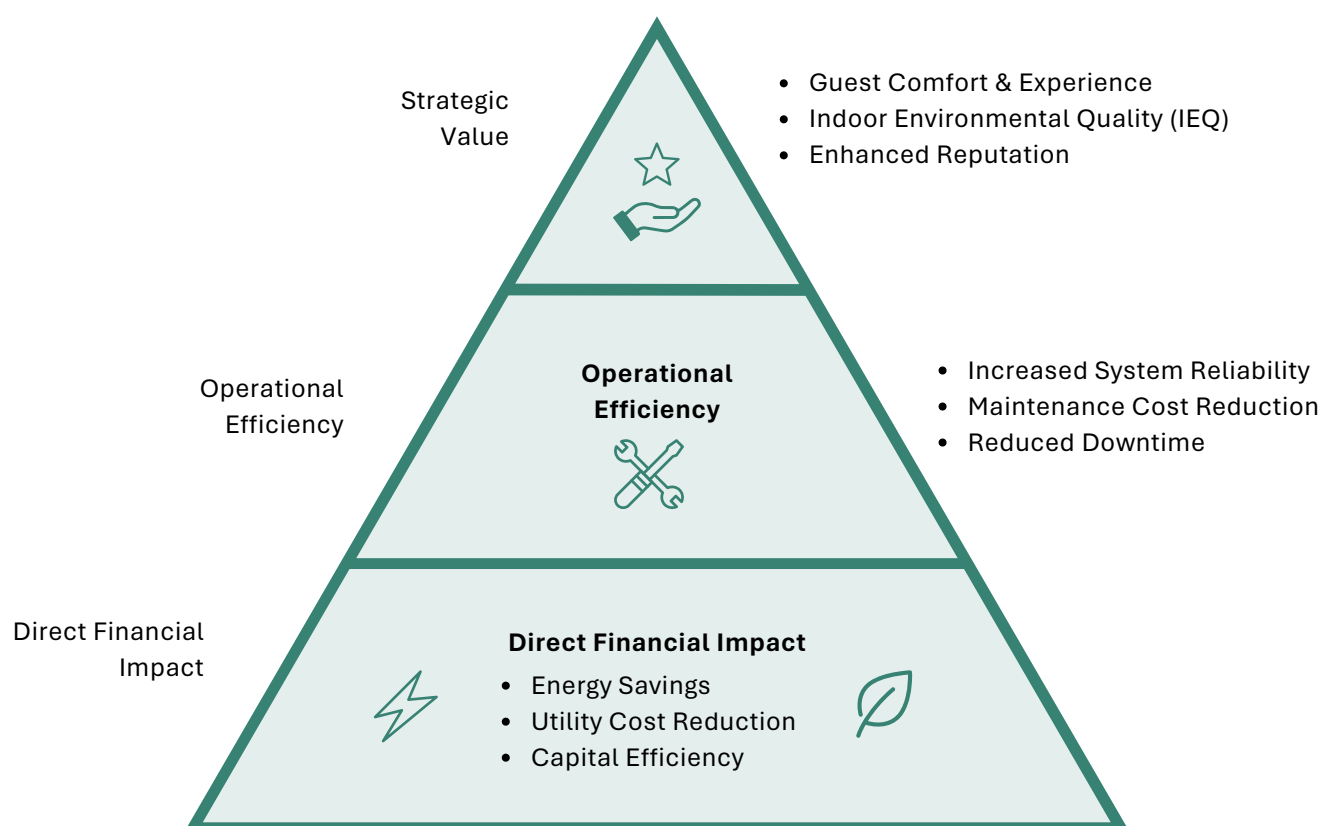
The Financial Architecture of Sustainability: Quantifying ROI

To successfully advocate for a sustainability project, one must move beyond "environmental altruism" and adopt the language of a Chief Financial Officer.

The most robust justification for any CapEx request is its direct impact on the asset's valuation. We categorise returns into three layers:

1. **Direct Financial Impact:** Utility cost reductions (Energy/Water) and capital efficiency.
2. **Operational Efficiency:** Increased reliability, reduced maintenance labor, and minimised downtime.
3. **Strategic Value:** Guest comfort, improved Indoor Environmental Quality (IEQ), and brand reputation.

Benefits of Capital Investment



In hospitality asset management, we evaluate projects not just on "Simple Payback" but on their impact on Net Operating Income (NOI). Because hotels are typically valued using a capitalisation (Cap) rate, usually around **6-7%**, this creates a roughly **15x** multiplier on any cost saving.

Delaying High-ROI Projects Destroys Value



£13,000 motor
(e.g., using a rate)



Saves **£850/year**
Creates **~£13,000** in asset value
(if property value ~ 15x operating profit)



**Optimised
Energy Use**



Saves **£2,500/year**
Creates **~£37,500** in asset value

The £13,000 High-Efficiency Motor: Replacing an old constant-speed motor with a high-efficiency model equipped with a Variable Speed Drive (VSD) might save **£850 per year** in electricity. While a **15-year** simple payback might be rejected by a traditional "Hurdle Rate," the financial reality is different. That **£850** annual saving, when capitalised at a **15x** multiple, creates **£13,000 in immediate asset value**. The project has essentially paid for itself in **Year 1** through valuation increase alone.

The Energy Management System (EMS): In a mid-scale hotel, an EMS might save **£2,500 per year** by optimising guest room HVAC based on occupancy. Using the same logic, this generates **£37,500 in asset value**.

The "Buy One, Get One Free" Philosophy

Delaying these high-ROI technical projects is not "saving" money, it is "destroying value." Every year a hotel operates with an inefficient system, it leaks capital. We advocate for a "Self-Funding Cycle": if an owner prioritises the technical, high-ROI upgrades today, the resulting energy savings will fund the aesthetic, "sexy" upgrades (like new carpets or restaurant lighting) tomorrow. It is quite literally a "Buy one CapEx project, get a second one free" strategy.

Data-Driven Prioritisation: A Multi-Level Framework

Effective CapEx planning requires moving beyond "squeaky wheel" management where the most vocal department head gets the budget to a multi-level empirical framework. At the individual property level, we rank projects according to three primary filters:

1. **Financial Return:** Prioritise "Quick Wins" with a payback of less than 1 year. Use Internal Rate of Return (IRR) and Net Present Value (NPV) to compare projects across different time horizons.
2. **Guest Experience Impact:** Projects that resolve "hot/cold calls," odor issues, or noise complaints. These reduce "guest compensation" (comps), which is a direct (and often unrecorded) drain on NOI.
3. **Operational Impact:** Focus on reducing "Responsive Maintenance" labor. If your engineering team is spending 40% of their time fixing a specific legacy system, the labor saving of a replacement must be factored into the ROI.



How to prioritise projects at site-level:**1 Financial Return**

- Highest ROI to lowest
- Lowest simple payback first
- Prioritise quick wins this year

**2 Guest Experience Impact**

- Hot / cold calls
- Noise and odour issues
- Fewer guest complaints

Project Interactions

- Economies of scale
- Interaction factors between projects

**3 Financial Return**

- Fewer repairs
- Less downtime
- Expanded capacity
- Less time resolving operational issues

**4 Prioritised CapEx Investment Plan**

For asset managers overseeing multiple properties, three pillars define capital deployment

- **Utility Price (Unit Cost):** Energy prices are not uniform. A **1,000 kWh** reduction in a high-tariff urban market like London or New York provides a significantly higher ROI than the same reduction in a lower-tariff region.
- **Total Utility Spend:** Larger, full-service hotels with complex F&B and laundry operations have "more fish in the barrel." The potential for massive, absolute savings is higher in a **£750,000** spend asset than a **£75,000** limited-service asset.
- **Performance Intensity:** This is the most critical metric. The industry standard is Energy Use Intensity (EUI) based on floor area (kWh/m²). However, this is a "trap" for hotels.

The Coral Bay Resort Analysis: The Efficiency Trap

How to prioritise projects at site-level



We need to try to compare EUI by area versus EUI per guest count. A hotel like the "Coral Bay Resort" might appear moderately efficient based on its floor area (Rank 16), but it ranks as the worst performer (Rank 20) when measured per occupied room.

This indicates a massive failure in "Variable Load" management. The building is heating, cooling, and lighting empty spaces as if they were fully occupied.

This "Performance Intensity" insight tells an asset manager exactly where to invest: in occupancy-linked controls and BMS optimisation.

Methodology and Innovation: From Assessment to AI

Creating a defensible "Investment Roadmap" requires a structured professional process that moves from raw data to actionable engineering specs.

Our methodology at Considerate Group follows a four-step path.

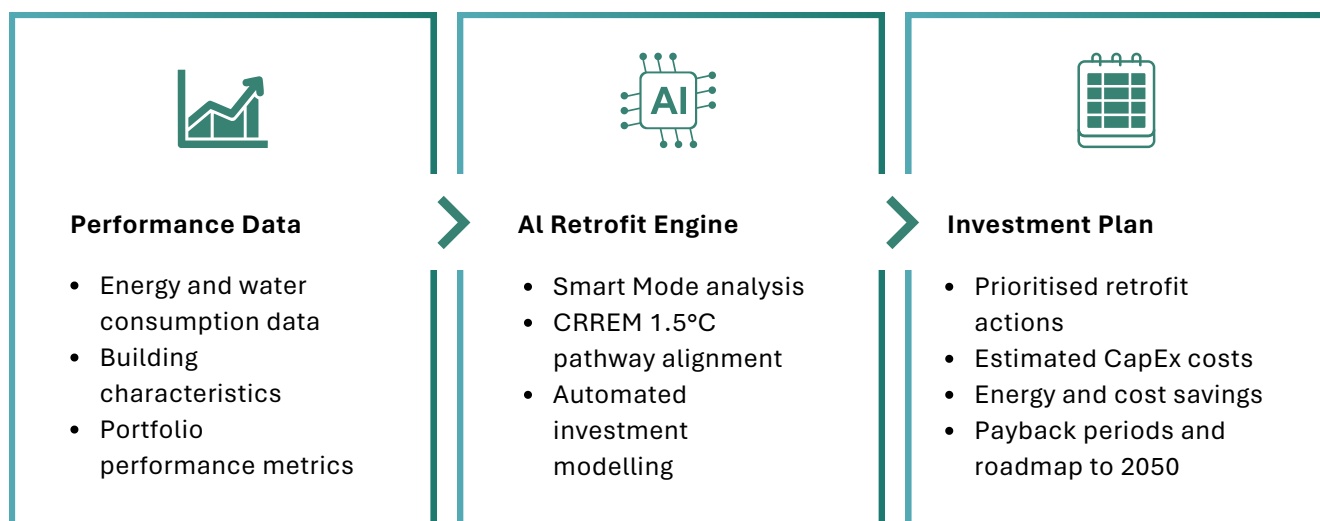
1. **Pre-Assessment Analysis:** We review 24–36 months of utility data to establish a baseline. We correlate consumption with "Heating Degree Days" (climate) and "Food Covers/Occupancy" (demand) to separate the "Base Load" from the "Variable Load."
2. **On-Site Technical Assessment:** A deep dive into the "Sensible Heat" (temperature) and "Latent Heat" (humidity) management of the building. We audit HVAC plant efficiency, insulation integrity, and lighting schedules. We specifically look for "Interaction Factors". For example, ensuring that a lighting upgrade doesn't negatively impact the heating requirements of a northern-climate hotel.
3. **Data-Led Recommendations:** Every intervention is quantified. We don't just recommend "better HVAC"; we specify Variable Speed Drives (VSDs), Heat Recovery Steam Generators, or BMS Recommissioning, complete with projected energy, cost, and carbon savings.
4. **Investment Roadmap:** Recognising budget constraints, we align these technical interventions with the asset's equipment replacement cycles.

The Role of AI in Scaling Expertise

To manage portfolios at scale, we utilise the **AI Retrofit Module** in our **Con-Serve™** platform. This tool uses existing consumption data and qualitative building surveys to generate prioritised retrofit lists across hundreds of assets.

Crucially, the AI Retrofit Module aligns these recommendations with the **CRREM 1.5°C pathway**. This allows asset managers to see the "Value at Risk" and understand exactly how a specific investment today prevents the asset from becoming "stranded" in **2030** or **2035**.

Spotlight: AI Retrofit Module in Con-Serve™



The data-driven approach is not theoretical; it delivers massive, bottom-line results for the world's most complex assets.

Case Study: Dorchester Group Limited

The Dorchester Group operates some of the most resource-intensive luxury hotels globally. By implementing a data-led strategy through the **Con-Serve™** platform, the group achieved:

- **£1,500,000+ in energy savings** across **9 hotels** in just **24 months**.
- An average payback period of **less than 18 months**.

Key Interventions: HVAC upgrades, pump replacements, and, most importantly, BMS recommissioning and setpoint optimisation.

The "No-Budget" Strategy: Retrocommissioning (RCX)

We are frequently asked how to achieve impact when CapEx is frozen. The answer is **Retro-commissioning (RCX)**, the process of making existing systems work the way they were designed.

Our data shows that an RCX approach typically yields a **3% to 8% reduction** in energy and water use with near-zero capital outlay. In assets with significant known issues, we have seen savings as high as **10-12%**.

Other tactical "Quick Wins" include:

- **SOP Adjustments:** Mandating that housekeeping set thermostats to a standard "unoccupied" setpoint (e.g., 19°C in winter) during room turns.
- **Room Allocation Strategy:** During "shoulder seasons," concentrating all guests in a single wing or floor. This allows the engineering team to "scale down" the HVAC and lighting for entire sections of the building, drastically reducing the Base Load.
- **BMS Recommissioning:** Adjusting "deadbands" to ensure the heating and cooling systems aren't "fighting" each other to maintain a single degree of temperature.

Conclusion: Securing the Future of Hospitality Assets

The core directive for the modern hotel asset manager is clear. **Technical building performance is the new frontier of asset value.** The days of ignorant ownership where the plant room was left entirely to the engineering team are over. In a market defined by high energy costs and stringent environmental mandates, the smarter capital philosophy is the only way to ensure asset resilience.

We must stop treating sustainability as a cost center and start treating it as a primary driver of ROI.

By quantifying the multiplier effect on asset valuation, utilising "Performance Intensity" to find inefficiencies and adopting a structured methodology from assessment to AI integration, we can protect our assets from value destruction.

As we enter the next "Budget Season," the most dangerous thing an owner can do is leave data at the door. Integrating technical building performance into the annual capital plan is not just an engineering task: it is a strategic mandate.

Those who act now will create self-funding cycles of improvement and secure the long-term value of their portfolios. Those who delay will find themselves holding "stranded" assets in an increasingly green-conscious market.

The tools are here; the financial case is proven. It is time to invest.

Through the purpose-built Con-Serve™ platform, asset owners are empowered to transform fragmented data into a clear, actionable strategy that builds future-proofed, resilient and high-performing portfolios. But translating these insights into action also requires expert evaluation.

Considerate Group offers comprehensive **Hotel Energy Assessments** to bridge the gap between building data and operational reality. These assessments provide each hotel with a comprehensive understanding of its energy usage and carbon emissions profiles, identifying clear areas for reduction. Our experienced engineers conduct thorough on-site reviews of your infrastructure to provide a suite of tailored operational no-cost, low-cost, and CapEx-intensive recommendations to reduce energy, carbon and operational expenditure.

The resulting financially-grounded report provides a clear, prioritised roadmap for the hotel to implement energy and resource-saving measures that are feasible, cost-effective, improve guest comfort and streamline operations.

Crucially, these interventions are aligned with long-term sustainability and decarbonisation targets. These assessments allow for tailored insights into the operational realities of our clients' assets and significantly enhance the robustness of any portfolio-wide decarbonisation strategy.

Sustainable hotel operations, supported by thorough Energy Assessments, are not just an environmental choice but a strategic necessity. They are essential for paving the way towards a greener, more efficient future in hospitality, while ultimately helping hotel operators reduce carbon emissions and costs.

- Nick Walsh, Senior Data Manager

By mastering data-driven performance, asset owners build resilient portfolios for today and lay the essential groundwork for the next frontier of industry leadership. By maintaining a sharp focus on the commercial business case for sustainability, proactive asset managers will unlock continuous cost savings, mitigate regulatory risks and ensure their assets remain highly profitable and future-proofed for decades to come.