

# **Possible scenarios re sustainability efforts by the hospitality sector and impact on hotel investments**

## **Preliminary Scenarios and Strategic Implications**

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### **Abstract:**

The growing impact of Environmental, Social, and Governance (ESG) regulations is reshaping the global investment landscape, with possibly significant implications for the hospitality industry. But sustainability efforts can depend on several drivers, beside regulations. This paper explores the possible scenarios re sustainability efforts of the hospitality sector (from an EU centric angle), analyzing the potential impact of each scenario on hotel investment strategies.

Given the uncertainties, this research adopts a strategic foresight approach. Strategic Foresight offers a framework to navigate potential future developments by identifying current assumptions and key uncertainties that may lead to unexpected outcomes. Rather than attempting to predict the future, this method strives to understand the range of plausible futures that may emerge from the interplay of factors like evolving regulations, technological advancements, and shifting societal expectations regarding sustainability.

Through a review of current developments re ESG/sustainability regulations, interviews with key decision makers, and academic literature, the research highlights 4 preliminary scenarios as presented by the below 2x2 matrix. By considering the economic backdrop and public attitudes toward ESG, the research adds a dynamic layer by explicitly considering how macro-level uncertainties and changing attitudes towards ESG could reshape the financial landscape for real estate and hotel investments, demanding a more adaptive and forward-looking investment paradigm. These preliminary scenarios will be used in subsequent interviews and iterative refinement of the scenario framework.

<i>Economic instability</i>		<i>Political and social backlash against ESG</i>
<p><b>The Green Crunch scenario:</b> a rapid and potentially disruptive transition towards sustainability. This scenario sees increased demand for energy-efficient buildings and a decline in the value of "brown" assets, coupled with high retrofitting costs and potential labor shortages in the sustainability sector.</p>	<p><b>Green Abandonment scenario:</b> The economy is putting pressure on consumers, businesses and governments. This creates a forceful backlash and could slow down the green transition as sustainable investments and regulations are pared back. Green finance, will lose its favored status, and no cost of capital advantages for green real estate.</p>	
<i>Economic stability</i>		
<p><b>Green Growth Scenario:</b> creating an environment conducive to long-term sustainable growth. This situation fosters increased investment in green technologies and energy-efficient infrastructure and buildings, leading to a decline in reliance on fossil fuels and a corresponding reduction in carbon emissions, while stable energy costs support economic activity and affordability.</p>	<p><b>Green Complacent scenario:</b> leading to a weakening of the drive towards sustainability, with a focus on maintaining current consumption and investment patterns and less pressure for radical changes in energy production or building efficiency. Investments in sustainable solutions may slow down, and the transition to a greener economy loses momentum.</p>	

## Introduction

The Corporate Sustainability Reporting Directive (CSRD) is a European Union (EU) regulation focused on mandating the disclosure of non-financial information, specifically Environmental, Social, and Governance (ESG) factors, by a large number of companies; this regulatory framework, established in November 2022, with the initial group of companies subject to compliance requirements financial statements on 2024 (European Commission, Corporate sustainability reporting, no date). This directive is designed to provide stakeholders, including the financial sector, with a comprehensive view of companies' ESG impacts and targets. According to the European Commission, the CSRD is intended to work in conjunction with other EU regulations, such as the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, to create a framework for sustainable finance (also known as the EU's Green Deal). With EU ESG regulations coming into effect for more and more companies in the next few years, a wealth of data on ESG factors will become available. (Please note that in this paper the term ESG is a proxy for sustainability and within the EU context; the term "ESG regulations" in this paper is meant to capture EU ESG regulations, amongst them the CSRD, SFDR CSDDD, and EU Taxonomy).

CSRD in combination with the SFDR and the EU Taxonomy is more than a disclosure mandate; it's a tool designed to actively steer economic behavior. The EU intends to leverage the CSRD and SFDR, and the EU Taxonomy, to guide capital towards businesses aligning with its sustainability objectives. This intent is clear in how the SFDR, in combination with CSRD, is structured to shape investment decisions by financial institutions:

*“The Paris Agreement adopted under the United Nations Framework Convention on Climate Change (the ‘Paris Agreement’), which was approved by the Union on 5 October 2016 (3) and which entered into force on 4 November 2016, seeks to strengthen the response to climate change by, inter alia, **making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.**”* (Point 2 of the [REGULATION \(EU\) 2019/2088](#) OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, (aka SFDR treaty). Bold added).

At first, this steering is achieved through the effects of transparency; the more business partners, clients and investors know about the impact of their possible actions, the more sustainable their choices could become. For the future, the sustainability data provided by CSRD, SFDR and the EU Taxonomy, will allow other mechanisms to be created that lead to financial incentives/disincentives. For instance, the EU's sustainability framework may in the future require banks to hold more capital as a buffer against loans to companies with sub par ESG scores, increasing the cost of lending to those companies. Critics argue that the EU's use of regulatory power to advance its green agenda, potentially hindering economic efficiency and creating complex regulatory burdens, and that the concern is that the EU's sustainability framework could prioritize political goals over economic reality (Thorpe, P. 2025).

In the old set up (pre Omnibus packages I and II), the impact of CSRD extended beyond the 50.000 companies directly required to report. The directive's design incorporated a mechanism for "trickle-down" effects, meaning that the ESG reporting requirements placed on large, listed companies would indirectly affect their entire supply chains. This would occur because these companies would need ESG information from their suppliers to accurately report on their own environmental and social footprint. One of the intended effects of CSRD (and SFDR and EU Taxonomy) was and remains that it provides all stakeholders a complete picture on ESG factors and the targets that are set by each individual company reporting under the CSRD. This need for comprehensive data necessitates that reporting companies would compel their suppliers to provide detailed ESG information.

The hotel industry, including hotel brands, hotel owners, hotel real estate and the broader hospitality sector, would have been significantly affected by these trickle-down effects. Hotels operate within complex supply chains, encompassing everything from food and beverage suppliers to energy providers, construction companies (for new-builds or renovations), and service providers. As larger entities within these supply chains would face CSRD reporting obligations, they would, in turn, demand ESG data from the hotels they work with. This would pressure hotels to measure and report on their own ESG performance, even if they would not be directly subject to the CSRD. This would provide the necessary input for, amongst others, financial market participants (banks, pension funds, insurance companies, institutional investors, etcetera) falling under de SFDR, and thus complete the circle.

Early signals indicate a potential reshaping of real estate investment (JLL, 2025), thus illustrating how CSRD and related EU ESG regulations are already steering capital flows (KPMG, no date). The increasing availability of ESG data empowers financial institutions to prioritize sustainability in their investment decisions. This could lead to a dual dynamic within the real estate sector, including hotels: properties with strong ESG profiles may attract increased investment and potentially higher valuations, while those with weaker ESG performance could face decreased investor interest and valuation challenges. This dynamic is further influenced by the possibility that lenders will apply stricter conditions to loans for properties with subpar ESG ratings, reflecting the increased financial risk. This shift occurs against a backdrop of existing challenges in the commercial real estate sector, such as rising interest rates and tighter lending conditions. The added layer of ESG considerations introduced by the EU's sustainability framework may amplify these pressures, particularly for properties that are slow to adapt.

However, the Omnibus I and II proposal, introduced by the EU Commission to prioritize EU competitiveness, represents a substantial shift that dilutes the transformative potential of the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Due Dilligence Directive (CSDDD) and the EU taxonomy. Unveiled on February 26, 2025, the Omnibus packages aim to simplify and streamline sustainability reporting requirements, but in doing so, they significantly alter and water down core Green Deal instruments, including the CSRD. For example, this initiative, if approved by the European Parliament, reduces the scope of the CSRD from 50.000 to about 10.000 companies. Also, reasonable assurance about the provided ESG data will no longer be required; only limited assurance. So the quality and amount of companies reporting ESG data, would be significantly reduced if the Omnibus packages get approved by the European Parliament.

While the stated intention behind the Omnibus proposals is to alleviate the burden of what some perceive as "bureaucracy monsters" (Bertram, 2025) and to enhance the EU's competitiveness, its consequences raise concerns about its actual effects. Critics argue that by reducing the number of companies subject to mandatory reporting and potentially weakening assurance requirements, the proposal undermines the CSRD's fundamental goal of fostering widespread ESG transparency and accountability (Euractiv, 2025). The move towards voluntary reporting for certain large companies, and the paring back of assurance, may lead to less available and less reliable ESG information for investors and other stakeholders. Also, the Omnibus proposals would basically stop the trickle-down effect of the CSRD by legally limiting the amount of ESG data that in scope companies can demand from out-of-scope companies. This shift suggests a prioritization of economic considerations over the initial ambitions of the Green Deal, casting doubt on the EU's commitment to a "just socio-ecological transformation" (Bertram, 2025).

The Omnibus proposals serve as a stark illustration of the inherent uncertainties facing businesses in general and hotel estate in particular in the context of evolving sustainability regulations, as it unexpectedly curtailed the scope and ambition of the CSRD, creating significant ambiguity for businesses that were already preparing for more comprehensive reporting requirements. This abrupt shift underscores the volatile nature of the regulatory environment and the potential for unforeseen policy changes to reshape the operational and investment landscape.

Given these uncertainties, this study adopts a strategic foresight approach. Strategic Foresight offers a framework to navigate potential future developments by identifying current assumptions and key uncertainties that may lead to unexpected outcomes. Rather than attempting to predict the future, this method strives to understand the range of plausible futures that may emerge from the interplay of factors like evolving regulations, technological advancements, economic and financial factors, and shifting societal expectations regarding sustainability.

## **Literature review**

A literature review has been done to provide a background about ESG and sustainability, its origins, definitions, evolution, data quality, its effects on business operations, availability & pricing of capital, business valuation, and the acceptability of sustainability measures.

### *Standardization and disclosure*

The importance of ESG clarity and standardization is highlighted by Bassen and Kovács (2020), who discuss the challenges of quantifying qualitative ESG factors for firm valuation,

pointing to the need for better quantification and representation of ESG data. Ioannou and Serafeim (2019) examine the impact of mandatory ESG disclosure regulations, finding that such regulations in China, Denmark, Malaysia, and South Africa lead to increased disclosure and improved firm valuations. Pollman (2024) provides a historical perspective on the term ESG, tracing its origins and the evolution of its meaning, highlighting the inherent ambiguity in its usage.

Buchetti et al. (2024) explore the relationship between corporate governance attributes and ESG indicators, identifying factors like female directors, institutional investors, and sustainability committees as influential in ESG outcomes. Sun et al. (2024) examine the factors influencing the tone of ESG disclosures, finding that higher ESG performance, adoption of the Global Reporting Initiative (GRI) framework, and ESG reporting assurance are associated with a more optimistic tone in ESG reporting. Ye et al. (2025) propose an ESG reporting framework specifically tailored for the tourism industry, acknowledging the importance of context-specific reporting and the influence of cultural factors on managers' perceptions of ESG reporting. Bae (2022) develops ESG evaluation guidelines specifically for the hotel industry, and utilizes the Korean-ESG guidelines as a benchmark. Dos Santos and Pereira (2022) contribute to this area by proposing a method to quantify ESG performance in port operations, addressing a gap in ESG assessment within this sector. Madison and Schiehl (2021) further this discussion by investigating the impact of financial materiality on ESG performance assessment, highlighting how considering financially material ESG issues can significantly alter firms' ESG scores and rankings.

### *Market developments*

A growing influence of ESG factors on market demand and investor preferences becomes manifest as tenants are increasingly considering energy costs and sustainability goals (EU mandated energy labels) when choosing office spaces (JLL, 2025). Furthermore, investors are factoring in the costs associated with retrofitting "brown" buildings to meet sustainability standards, leading to a "brown discount" on properties that require significant upgrades. F. Fuerst & P. McAllister research on the US commercial real estate market indicate that, compared to buildings in the same submarkets, eco-certified buildings have both a rental and sale price premium (F. Fuerst and P. McAllister, 2011). Despite that this paper concerns the US and not the EU and is already quite dated, it does show the causal relationship between energy performance labels and commercial property values.

### *Economy, Performance and Financial Outcomes*

Several studies investigate the relationship between ESG performance and financial outcomes. Cheng et al. (2014) explore the link between corporate social responsibility (CSR) and access to finance, suggesting that strong CSR performance can reduce capital constraints for firms. Chen and Xie (2022) find a favorable effect of ESG disclosure on corporate financial performance, particularly among companies with ESG investors. Fatemi et al. (2018) reveal that ESG strengths increase firm value, while weaknesses decrease it, and that disclosure plays a moderating role in this relationship. Zhou and Zhou (2021) examine the impact of ESG performance on stock price volatility during the COVID-19 pandemic. Tharavanij (2019) provides a review of studies on the relationship between ESG performance and financial performance, including the impact of ESG on a firm's cost of equity and firm value. And [Scatigna, M. Xia, D. Zabai, A and Zulaica, \(2011\)](#), researched the effect on capital costs and valuation multiples: “[we] *find evidence of a carbon risk premium: debt from entities with a higher carbon footprint trades at marginally higher yields, all else the same. We also document that investors are willing to pay a social premium*”. In the tourism sector, Dogru et al. (2022) analyze the effect of ESG risks on firm value, contributing to the understanding of how ESG factors influence financial outcomes in a specific industry. Zhang and Liu (2022) investigate whether ESG performance enhances financial flexibility, finding evidence that ESG performance can be a strategy for firms to improve their financial flexibility in response to uncertainty.

In a Bank of International Settlement paper, concerns were raised about potential unintended consequences of capital leverage regulations (Basel III) on financing (Rodrigo Coelho and Fernando Restoy, 2022, [FSI Briefs No 16](#), The regulatory response to climate risks: some challenges). Coelho and Restoy argue that:

*“... as jurisdictions seek to mitigate climate change by reducing GHG emissions, their efforts generate transition risk drivers. This is because economic disruptions could result from the cumulative effects of changes in government policies, in technology and in consumer and investor behaviour. These, in turn, may erode the value of some bank exposures and the underlying collateral.”*

This could mean that the value of assets, with real estate being the prime candidate, can become subject to downward valuation adjustments. They continue to argue that some banks might take pre-emptive measures, which could hamper the green transition as some companies and or projects will not be able to get the financing to change.

Recent trade spats with the Trump administration and geopolitical shifts, have highlighted that ESG does not operate in a vacuum. Mario Draghi's report (Draghi, M. 2025) on EU competitiveness, has led to the creation of the EU Compass and the previously discussed Omnibus I and II packages, amongst others. It seems that economic priorities and ESG

goals are, at least from a regulatory perspective, at times at loggerheads. The current thinking of the European Commission, exemplified by the above, seems to be to lessen the ESG regulatory burden to increase competitiveness. It shows that GDP and GDP growth potential have a shaping role re ESG regulations' scope and breadth.

Furthermore, economic developments in themselves could have an impact on ESG's success, as indicated by Barbara Baarsma in her book "Groene Groei" (Green Growth), (Baarsma, B. 2022). Without decent GDP growth, there will be less capital available (at the consumer, corporate and government level) for government spending (education, health, defense, et cetera) in general, and to effectuate the transition to a more sustainable economy in specific. According to Franzen, A. & Meyer (2010), a higher GDP correlates to pro-environmental attitudes and reduced climate change skepticism. This would mean that if GDP is suppressed or even in decline, support for sustainability is likely to drop.

Rising energy costs as also become a significant theme, as it increases the impact of energy efficiency on the financial viability and attractiveness of properties (Jutte, A. 2023). The transition to sustainable buildings is expected to be both capital and labor-intensive, with significant costs associated with retrofitting existing properties. According to [Barclays](#), the availability of skilled labour for these retrofits is also a concern. Also, so far, the transition to green energy itself has in some cases pushed up energy prices (via carbon taxes, increasing network costs and investments, amongst others) and, for example, created congestion on electricity networks (Toh, L. 2021). But the recent fluctuations in energy prices are also a reflection of new and rapidly shifting geopolitical and economic realities, so it is in some cases less clear what the green energy transition's effect exactly is. Looking forward, some like the [International Energy Agency's](#) (IEA) fear that the shunning of investments in fossil fuel, will lead to unorderly energy price increase as green energy sources cannot replace fossil fuels that quickly. Others, like [European Commission](#), expect the long term effects of the energy transition to positive (i.e. prices will fall). All of this, in itself, could have a big impact on GDP growth potential (either positive or negative, depending on which take).

In sum, while the literature confirms that ESG regulation in general, and the EU sustainability framework in particular, have the potential to direct capital flows and reshape the operational landscape of the hospitality and tourism industry, thus affecting, amongst others, valuation, the generally positive expectations surrounding non-financial reporting should be tempered by considerations of ongoing regulatory developments (like the Omnibus bills), implementation challenges, political shifts, economic developments and public support.

## Methodology

This study employs a foresight methodology, specifically utilizing the common 2x2 matrix framework (Bishop et al., 2007; Postma et al., 2024), to envision plausible futures for hotel companies and hotel real estate. To identify critical drivers of change and key uncertainties surrounding the impact of non-financial reporting rules and directives, such as CSRD, semi-structured expert interviews are being conducted (Van der Heijden, 2005). A total of 7 interviews with relevant experts have already taken place with another 8 planned.

## Results

This preliminary report reflects the initial findings from the literature study, the first seven completed expert interviews, providing an early indication of emerging themes and potential future scenarios. The next 8 interviews are planned for Q3 and Q4 of 2025.

Interviews to date:

Organisation	Name	Title
European Banking Authority	Dorota Wojnar	Head of ESG Risks Unit
	Ali Erbigic	Senior Policy Expert Economic and Risk Analysis
	Fabien le Tennie	Policy Expert, Sustainable Finance
Independent Financial Advisor	Michel Salden	Independent Financial Advisor
Colliers	Petran van Heel	Director ESG
ABN-Amro	Stef Driessen	Sector Banker Hospitality
	Leon Geusebroek	Sustainability Expert Corporate Bank
ING IM	anonymous	C-suite
PWC	Barbara Baarsma	Head Economist
Rijksuniversiteit Groningen	Lex Hoogduin	Professor Monetary Economics; Complexity and Uncertainty

## ESG Regulations

The interviews reveal a dynamic landscape of evolving ESG regulations, marked by increasing complexity and integration into finance. A key theme is the shift towards risk management, with the European Banking Authority (EBA) emphasizing the mitigation of

risks associated with the green transition itself. There's a focus on refining existing regulations rather than radical overhauls, although the influence of political decisions remains a factor, of which the Omnibus packages are a case in point.

A radical EBA policy shift, while a potential disruptor, has been deemed an unlikely event by EBA interviewees as the institution's stated focus is on risk management and there is reluctance to intervene in banking business models. However, the Coelho and Restoy FSI brief by the Bank of International Settlements indicate that to effectuate a real change, it will be regulators like the EBA which will have to (be forced) intervene in business models. So, while the EBA indicates that at this moment such policy shifts are deemed unlikely, they did confirm that politicians can effectuate a change of course at the EBA.

Several interviewees highlighted the growing importance of standardization and reporting frameworks like the EU Taxonomy and SFDR. However, concerns about "greenwashing" and the actual impact of ESG classifications were raised. One interviewee noted a potential "large cap bias," as larger companies are better equipped to handle ESG disclosure requirements. Overall, the evolution is characterized by a push for greater transparency and accountability, but challenges remain in ensuring effective implementation and impact.

### *Climate risks*

Climate risks are increasingly recognized as a significant factor by central banks, the Bank for International Settlements, banking regulators and so forth, influencing financial decisions and asset valuation. The interviews reveal a growing awareness of the potential for physical risks, such as extreme weather events, to impact property values and investment returns. Transition risks, associated with the shift to a low-carbon economy, are also a concern, particularly the risk of assets becoming "stranded" and causing economic damage. There's an emphasis on the need for better tools and metrics to accurately assess and manage these climate-related risks, integrating them into financial risk assessments.

### *Technological advancements*

Technological advancements can play a crucial role in the evolution of ESG, particularly in measuring and managing environmental impact. One example is the use of [CRREM](#) analysis, a model that calculates a property's potential to become a "stranded asset" based on its energy consumption and projected emissions targets. This highlights the increasing sophistication of tools used to assess ESG risks in real estate. However, the reliability and comparability of basic metrics like energy labels was questioned, with one interviewee noting a potential disconnect between theoretical ratings and actual energy consumption. He suggested a need for more accurate, technology-driven monitoring of

real-world energy use and CO2 emissions, with one standard for all instead of varying national standards. Also, the effect of energy labels on real estate values might even become more pronounced, if, as the interviewee indicated, governments start really enforcing energy labeling regulations. For example, officially in the Dutch market, an office real estate object with an energy label of D or worse, is not allowed to be rented out, but in practice, this has not been enforced.

### *Financing conditions*

ESG factors are increasingly influencing financing conditions and costs. While there is limited evidence of a "brown surcharge" at the moment, where unsustainable companies face higher borrowing costs, some banks do offer interest rate discounts for green projects, as confirmed by several interviewees.

Also, banks cannot easily exit relationships with "brown" clients due to legal constraints, according to an interviewee. Some interviewees suggested a greater role for institutions like the European Investment Bank in co-funding green loans to facilitate the transition.

Overall, the financial sector is adapting to integrate ESG into lending decisions, impacting the cost and availability of capital, with concerns raised about potential unintended consequences.

### *Economic developments*

In the opinion of Barbra Baarsma (PwC), the green transition can only be based on a green growth model and not on models that require reducing GDP to achieve sustainability targets. Without a growing GDP there will be no money for social security, defense, healthcare, and so forth. In a setting of stagnant or declining GDP, continued investments in the transition will also become less likely.

## Discussion

From both the literature review and the interviews done thus far, it becomes clear that opinions on and the effects of ESG regulation in general, differ considerably. While the current literature is a bit thin on the relationship between ESG and hospitality valuations and investments (especially looking to the future!), the interviews did reveal practical evidence of several key developments that shape the intersection of ESG and real estate/hotel investment. In the first place, a clear trend towards the increasing integration of ESG factors into financial decision-making, driven by evolving regulations and investor demand for sustainable assets. This is reflected in the growing importance of energy efficiency and the emergence of a "brown-green spread" for properties requiring significant

retrofitting. While challenges remain, such as the proposed changes to ESG regulations, the accuracy of energy labels and potential labour shortages for retrofitting, the overall direction seems to point towards a future where ESG considerations are and will remain central to investment strategies and asset valuation.

However, significant uncertainties remain that could drastically alter the future landscape. One only needs to look at the current EU's political scene to see things can change quickly. Recent elections in member states indicate rising support for populist policies, which often correlate with a less favourable policy stance re sustainability and ESG. The issue has become so popular, that even centrist politicians are now, partly, incorporating these viewpoints. President Macron, for example, is calling for further simplification and delay of sustainability regulations, which go beyond the proposed changes in the Omnibus I and II bills ([Forbes](#)). A similar opinion has been voiced by German politicians that are now part of the new German government ([ESG News](#)). The EC's negotiator is now even proposing measures re cuts in ESG regulations, that are more extreme than what was put forward in the Omnibus bills ([Responsible Investor](#)). With France and Germany being the key political axis in the EU and the fact that the EC itself is bent on increasing the EU's competitiveness by cutting red tape ESG and other sustainability policies in the EU are in flux. The continuously changing opinions re sustainability and ESG regulations bring further uncertainty for corporate sustainability strategy, operations, valuations and investments.

From the current developments, some of the literature and most of the interviews, it has also become clear that the move to sustainability is also dependent on the economic backdrop, where economic setbacks limit the available capital for the green transformation and/or negatively impact green investments. The EU's recent focus on competitiveness and innovation, (EU Compass and the EU's Omnibus packages) is a case in point. It also seems to imply that the EC sees a trade-off between ESG/sustainability and economic growth (GDP). Some interviewees also indicated that a return on investment (ROI) on sustainability/ESG measures is and should be in focus. Linking this to the overall economy having an impact on the hospitality sector, it stands to argue that ROI calculations and economic conditions are highly correlated.

Formulating the main scenario's

As the *future* sustainability efforts can depend on several drivers, beside regulations, this paper explores the possible future scenarios re sustainability efforts of the hospitality sector (from an EU centric angle), analyzing the potential impact of each scenario on hotel investment strategies. As this research deals with the *future* of ESG and its impact on hotel investments it belongs to the strategic foresight category. To best deal with future uncertainty, the choice was made to create 4 overarching scenarios by using a 2x2 scenario

matrix. These preliminary scenarios will be used in subsequent interviews and iterative refinement of the scenario framework.

From the literature review, the interviews, and current developments, the degree of application of ESG/Sustainability strategies is dependent on public attitudes about sustainability/ESG and the economic backdrop. Therefore, these two items are chosen as the axes for the preliminary 2x2 scenario matrix. A limitation of the chosen drivers is that GDP and ESG acceptance are not completely uncorrelated.

The 2x2 scenario matrix explores the interplay between these two key uncertainties. The horizontal axis represents the level of consensus surrounding ESG principles, ranging from 'Favorable Consensus about ESG' on the left to 'Political and social backlash against ESG' on the right. The vertical axis depicts the state of the economy, expressed by GDP, with 'Economic instability' at the top and 'Economic stability' at the bottom. This framework yields four distinct scenarios:

		<i>Economic instability</i>			
<i>Favorable Consensus about ESG</i>	<b>The Green Crunch scenario:</b> a rapid and potentially disruptive transition towards sustainability. This scenario sees increased demand for energy-efficient buildings and a decline in the value of "brown" assets, coupled with high retrofitting costs and potential labor shortages in the sustainability sector.	<b>Green Abandonment scenario:</b> The economy is putting pressure on consumers, businesses and governments. This creates a forceful backlash and could slow down the green transition as sustainable investments and regulations are pared back. Green finance, will lose it favored status, and no cost of capital advantages for green real estate.	<i>Political and social backlash against ESG</i>		
	<b>Green Growth Scenario:</b> creating an environment conducive to long-term sustainable growth. This situation fosters increased investment in green technologies and energy-efficient infrastructure and buildings, leading to a decline in reliance on fossil fuels and a corresponding reduction in carbon emissions, while stable energy costs support economic activity and affordability.	<b>Green Complacent scenario:</b> leading to a weakening of the drive towards sustainability, with a focus on maintaining current consumption and investment patterns and less pressure for radical changes in energy production or building efficiency. Investments in sustainable solutions may slow down, and the transition to a greener economy loses momentum.			
		<i>Economic stability</i>			

Investors must integrate the dual uncertainties of economic performance and evolving ESG consensus into their strategies, preparing for scenarios ranging from a rapid 'Green Crunch' to stagnant 'Green Complacent'. While some prior studies optimistically highlight the current impact of ESG regulations on firm valuation, our scenario approach adds a

dynamic layer by explicitly considering how macro-level uncertainties and changing attitudes towards ESG could reshape the financial landscape for real estate and hotel investments, demanding a more adaptive and forward-looking investment paradigm.

While the 4 scenarios give a solid way to look at the future, potential 'wildcard' events could make some, if not all, of these scenarios obsolete. For example, a sudden technological disruption that fundamentally alters the economics of sustainable real estate would not be captured by the four scenarios (for instance, the emergence of a cheap and scalable technology for direct atmospheric carbon capture or a breakthrough in building materials that renders current retrofitting practices obsolete). The impact of such a disruption could be very high, potentially revolutionizing the industry by instantly increasing the value of some assets while making others obsolete, and drastically reshaping investment strategies.

In conclusion, the four preliminary scenarios described in this paper provide a way to deal with uncertainty but are by no means exhaustive or all capturing. The 4 scenarios offer a preliminary framework for researchers, corporate strategists and investors to deal with the complexity and uncertainty of the future of ESG/sustainability and its impact on hotel investments.

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