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Transcript of
Host Hotels & Resorts Inc
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Participants

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Presentation

OPERATOR: Good day, and welcome to the Host Hotels & Resorts Fourth Quarter 2020 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the call over to Tejal Engman, Senior Vice President of Investor Relations. Tejal, please go ahead.

TEJAL R. ENGMAN: Thank you, and good morning everyone. Before we begin, please note that many of the comments made today are considered to be forward looking statements under federal securities laws. As described in our filings with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed, and we are not obligated to publicly update or revise these forward-looking statements. In addition, on today's call we will discuss certain non-GAAP financial information such as FFO, Adjusted EBITDAre, Cash Burn and hotel level results. You can find this information, together with reconciliations to the most directly comparable GAAP information, in yesterday's earnings press release; in our 8-K filed with the SEC; and in the supplemental financial information on our website at hosthotels.com.

Participating in today's call with me will be Jim Risoleo, President and Chief Executive Officer, and Sourav Ghosh, Executive Vice President, Chief Financial Officer and Treasurer.

And now, I'd like to turn the call over to Jim.

JAMES F. RISOLEO PRESIDENT & CEO:

Introduction

Thank you, Tejal, and thanks everyone for joining us this morning. I'd like to start by expressing my heartfelt condolences to Arne's family and to all our friends at Marriott. I have known Arne for 25 years and found him to be one of the most authentic, engaging and caring leaders in the lodging space. A visionary leader, a loving husband and father, and a respected colleague and friend, Arne will be deeply missed and is leaving a lasting legacy within our industry and all the lives he has touched.

Host has emerged from the most challenging year in lodging history as a stronger company with robust long-term growth prospects. Our hotels have streamlined their operating models and minimized operating expense growth from second-quarter lows while accelerating RevPAR from $9 in April to approximately $42 in January. As a result, we have cut our hotel-level operating loss by more than half, from $163 million in the second quarter to $75 million in the fourth. We have also achieved breakeven or positive hotel-level operating profit at 20 hotels representing 24% of our rooms in the fourth quarter, a sharp increase from 14 hotels and 13% of our rooms in the third quarter. Additionally, we've invested in our long-term growth and enhanced our ability to gain and retain market share by continuing to upgrade several significant hotels and delivering the new AC Hotel Scottsdale North. Moreover, we've entered 2021 with $2.5 billion of total available liquidity. Our investment grade balance sheet has been further strengthened by opportunistic asset and land sales at pre-COVID-19 valuations and debt refinancing that has pushed our earliest maturity to late 2023. Last week, we announced a best-in-class second amendment to our credit agreement, which provides us greater flexibility to acquire hotels early in this new lodging cycle. With the highest quality portfolio in the company's history and a balance sheet that allows us to capitalize on external growth opportunities, we are very well positioned to elevate our EBITDA growth profile through the vaccine-driven recovery.

My comments today will focus on topline trends, ROI projects and our latest views on transaction markets and acquisition opportunities. Sourav will detail our hotels' operating expense control and the improvement in and outlook for cash burn and hotel EBITDA. He will also walk through the additional flexibility and optionality created by the second amendment to our credit agreement.

Group booking trends

January 2021 bookings:

Starting with group booking trends, we saw a marked increase in group booking activity for our Marriott managed hotels in January. Our hotels booked approximately 101 thousand group room nights for 2021, a 32% increase over Jan 2019, with January typically being a slow month for group booking activity. In addition, our hotels had an impressive lead-to-booking conversion rate of 22% compared to approximately 16% in Jan 2019. While there are several types of groups being booked, we were pleased to see bookings for incentive meetings, which have returned after a hiatus in 2020.

We also saw improved future group booking activity in January with approximately 73 thousand future group room nights booked for beyond 2021, representing a 42% increase to Jan 2019.

2021 Group Room Nights:

Through this January, we had approximately 1.6 million definite room nights on the books for full year 2021. Approximately 1 million of these occur in the second half of this year and are fairly evenly split between the third and fourth quarters, where bookings are largely continuing to hold. Should the groups materialize, our second half 2021 group business will have recovered to almost 50% of second half 2019 levels based on definite group room nights on the books. While group pace is less meaningful today as most meeting planners remain on the sidelines, we are encouraged by our total group revenue pace for the latter half of 2021. Pace in the second half of 2021 is down only about 25% compared to the same time last year, versus the first half being 84% lower than last year. This could improve with additional in-the-year-for-the-year group booking activity assuming state and local restrictions are relaxed and attendees become more comfortable with travel.

Staying with group, we believe that the location and quality of our hotels, as well as their longstanding sales relationships with key travel managers favorably positions them to gain market share when group demand returns to urban markets. For example, when demand from government agency groups surged around inauguration, our DC hotels ran occupancies of 81% and 78% on the day prior and the day of inauguration respectively, and we temporarily reopened the Hyatt Regency Capitol Hill to capitalize on this demand. For those days, our hotels' occupancies were 13 and 11 percentage points higher than other luxury and upper upscale hotels in the DC Metro region. Moreover, we achieved an ADR that on average was $26 higher each day for the three days of January 19th, 20th and 21st. Our hotels significantly outperformed other luxury and upper upscale hotels due to their coveted downtown locations, ability to accommodate large groups and their 30-year relationships with key government agencies.

Fourth Quarter 2020 Group Room Nights:

At the end of the third quarter, we had approximately 118 thousand definite rooms on the books for the fourth quarter, which would have represented a 7% sequential decline. However, our hotels were able to drive 38 thousand in-the-quarter-for-the-quarter bookings for a total of 156 thousand group room nights in the fourth quarter, representing a 23% sequential increase over the third quarter. Additionally, fourth quarter group bookings delivered a 12.3% higher average rate than third quarter 2020, helped by this short-term group demand that was driven by small to mid-sized corporate accounts and SMERF groups.

Group Rebookings and Attrition & Cancellation Fees:

Rebookings as a percentage of cancellations continue to increase with approximately 24% of cancellations at our Marriott managed properties now rebooked, and a funnel of tentative bookings that would take the total rebooked to almost 37%. In the fourth quarter and full year 2020, we collected approximately $11.5 million and $52 million of group attrition and cancellation fees respectively and expect to collect an additional $12 to $14 million in full year 2021.

Leisure Transient Trends:

Moving on to leisure trends, leisure demand remains concentrated in Sunbelt markets and key leisure destinations such as Hawaii, as most city and Metro destinations remain in various stages of restrictions. As with group over the inauguration in DC, we find that the location and quality of our resorts has enabled them to significantly gain market share. In the fourth quarter, our 16 resorts gained 17.8% RevPAR index share relative to their comp sets. This was driven by 8.1% better occupancy and 9% better rate compared to their RevPAR index scores in the fourth quarter of 2019. Moreover, we have gained 30% RevPAR index share in Phoenix, nearly 26% in the Florida Gulf Coast, 14.4% in Miami and nearly 12% in Maui/Oahu as our hotels outperform their peers in capturing leisure demand. Our most recent acquisition, the 1 Hotel South Beach, continues to be an outstanding performer despite the pandemic. The hotel achieved 90% occupancy at a nearly 2,000-dollar rate on New Year's Eve and has just finished Presidents Day weekend with occupancy averaging nearly 90% from Friday through Sunday, with a blended ADR of approximately $1,430, which represents a nearly 4% year-over-year increase.

Encouragingly, leisure RevPAR performance continues to improve over holiday weekends. For example, at our Marriott-managed hotels, RevPAR improved by 60% three weeks out from President's day compared to where those hotels were three weeks away from Columbus Day. In addition, we have observed a lengthening of the booking window in the Florida Gulf Coast, Miami and in Hawaii, where travelers are getting more comfortable with the testing requirements and process. With upcoming leisure holidays over Spring Break and Easter, we expect leisure occupancy to continue to improve, driven by our Sunbelt markets and Hawaii. For the second half of the year, transient revenues at our three Maui hotels are pacing 11% higher compared to 2019, while total revenues are pacing almost 20% higher.

Fourth Quarter 2020 Leisure Transient Room Nights:

In the fourth quarter, we grew leisure room nights by 62 thousand or by 13.6% over the third quarter. Our Sun belt markets ran 31.6% occupancy in the first week of the quarter and progressed to 33.5% throughout the quarter with growth driven by Miami, the Florida Gulf Coast, Phoenix and San Antonio. Moreover, our loyalty redemption in the fourth quarter was 25% higher than the third quarter and represented the highest rewards demand since the start of the pandemic. Resort properties accounted for 65% of the growth in loyalty redemption room nights driven by Phoenix, the Florida Gulf Coast, Hawaii, and Orlando.

Business Transient Update:

Moving on to business transient, demand remains low but has improved by 13% sequentially in the fourth quarter, which was the strongest quarter since the pandemic impacted travel. Cities that drove most of the increase over the third quarter were San Antonio, Houston and Philadelphia. As with group, business transient demand continues to be driven by smaller organizations rather than by large corporate accounts, whose decision to remain on the sidelines is partly due to liability risk that we expect will fade as vaccine deployment accelerates.

Portfolio Reinvestments:

Shifting to portfolio reinvestments, let me begin by saying that our ability to continue to invest in our portfolio is a competitive advantage that we expect will favorably position Host to gain market share and deliver superior revenue and EBITDA growth through this lodging recovery. Three to five points of weighted index growth at our renovated hotels in 2019 would have translated into roughly $38 to $63 million of incremental revenues and $21 to $34 million of incremental EBITDA on a stabilized, annualized basis. In addition to this, we expect our ROI projects to materially enhance the underlying value of our real estate. Last year, we completed extensive resort renovations and repositioning's at the Hyatt Regency Maui Resort and The Don Cesar in St. Pete Beach. Within the Marriott Transformational Capital Program, we plan on completing the Ritz-Carlton Amelia Island in March this year, following several notable completions such as the JW Marriott Atlanta Buckhead among others in 2020, and the San Francisco Marriott Marquis, Santa Clara Marriott, New York Marriott Downtown and Coronado Island Marriott Resort and Spa in 2019.

Marriott Transformational Capital Program:

We continue to invest in the Marriott Transformational Capital Program as well as in other ROI projects, which on a combined basis, represent nearly 71% of our 2021 capital spend. Moreover, nearly 85% of our investment in the Marriott program is expected to be complete by year-end 2021 and the entire program should be substantially completed by year-end 2022. Having completed seven of the Marriott program renovations through year-end 2020, we expect to complete an additional four hotels in 2021, thereby transforming 11 of the 16 hotels that make up the program. We expect to benefit from $16 million of operating profit guarantees from Marriott in 2021 without experiencing commensurate revenue disruption given the current low RevPAR environment.

Andaz Maui - 19 New Villas:

In addition, we expect to deliver 19 new two-bedroom luxury villas at the Andaz Maui at Wailea Resort in April this year. The 11 existing villas achieved a RevPAR of approximately $1,700 in 2019 and while they exhibit strong demand throughout the year in normal years, recent demand for villas has more than tripled from pre-pandemic levels. ADRs for these villas ran at almost $3,700 a night in December and at $2,400 a night in January. We already have 300 room nights on-the-books for the new villas, with a transient rate of $1,990 a night - and the hotel has only just begun marketing them. Although the villas expansion wasn't part of our original underwriting when we acquired the hotel in 2018, we are currently exceeding our project underwriting assumptions for 2021 on both rate and occupancy.

The Ritz Carlton Naples - Expansion & Repositioning*:*

We are excited to announce the repositioning and expansion at one of our top performing hotels, the Ritz-Carlton Naples, where we see an opportunity to create meaningful value while also transforming the resort to meet today's luxury standards. A new tower and reconfiguration within the existing hotel will increase the suite count at the Ritz from less than 8% of total inventory to almost 20% or 92 keys, while adding 24 keys overall. In 2019, the resorts' 35 suites achieved RevPAR of approximately $800, almost double the overall RevPAR of the resort and are highly sought after by the hotel's loyal customer base. Additionally, an expanded club lounge will eliminate the size constraint on upsells, which generated an annualized ADR premium in excess of $220 in 2019. Business interruption estimates continue to be low due to the impact of COVID-19 on occupancy, which also makes this an opportune time to renovate the guestrooms, and to make ROI generating upgrades to the resort's pools, pool bar and restaurant. The project will commence in May 2021 and is expected to be complete in December 2022. At stabilization in 2023, we expect this project to generate nearly $10.5 million of incremental annualized EBITDA, which represents a 12% cash-on-cash return on incremental investment, based on our underwriting.

Acquisitions:

Finally, on acquisitions, in the first weeks of 2021, we have seen a marked increase in the number of attractive hotels coming to market. From looking at just a handful of deals in the fourth quarter of 2020, we now have a solid pipeline of interesting and actionable opportunities to evaluate. In many instances, the hotels we are looking at are owned by private owners who have been contemplating liquidity events for some time. While we expect to face strong competition for acquisitions, we are very well-positioned due to our deep relationships and our ability to move quickly, fund large equity investments with cash and provide tax-advantaged alternatives to sellers. This management team has a strong capital allocation track record, having acquired $1.6 billion of assets and sold $3.3 billion of assets at favorable multiples in 2018 and 2019.

The biggest shift in our acquisition strategy is our consideration of markets beyond the Top 25. IBM Watson, our recently developed predictive analytics model, mines over one million discrete structured variables and leverages natural language processing insights from over three million unstructured data sources to forecast RevPAR growth by market. We use this proprietary topline predictive model and our research-based expectations for hotel operating expense growth by market to narrow down markets that are likely to outperform the revenue and EBITDA growth profile of our existing footprint. While we believe this is an opportune time to deploy capital as we are at the beginning of the lodging cycle and appear to be heading into a period of strong economic recovery, let me emphasize that we are not looking to acquire for acquisitions' sake. We are optimistic about finding opportunities that will truly elevate the EBITDA growth profile of our existing portfolio.

To conclude, we are very encouraged that vaccine deployment in the United States has gained momentum with over 55 million doses administered already and 1.7 million new doses being administered each day, according to CDC data. As the Washington Post recently reported, the United States has purchased enough supplies to vaccinate all American adults making the vaccine-driven recovery more certain today than it has been since the pandemic began. McKinsey estimates that the U.S. may achieve herd immunity by the third or fourth quarter, and that a "transition to normalcy" is possible as early as the second quarter of 2021, aided by the Spring weather and the vaccination of the highest-risk populations. Should this scenario materialize, we expect to be able to achieve positive Hotel EBITDA at some point in the second half of the year and to continue to benefit from a rebound in travel as the pandemic recedes.

With that, I will turn the call over the call to Sourav.

SOURAV GHOSH, CFO & TREASURER: Thank you, Jim. Good morning everyone.

Following the revenue-related green shoots Jim detailed on group bookings and transient demand, I would like to give you a better sense of how we expect property-level expenses to trend relative to revenues this year.

Expense Reduction Ratio

Since the start of the pandemic, we have worked closely with our property managers to aggressively limit costs and evolve the operating model to adjust for the business environment. In the fourth quarter, excluding severance, property-level expenses were approximately 65% lower compared to the fourth quarter of 2019. Including wage and benefit costs, variable expenses were roughly 82% lower year-over-year, broadly in line with RevPAR declines of 79.7%, while fixed expenses were approximately 47% lower.

Variable expense reductions have consistently been in line with overall revenue declines through the downturn. Fixed expenses that are somewhat associated with business volumes, such as maintenance, marketing and utility costs, saw a dramatic reduction in the second quarter and have slowly increased as business improved through the back half of the year. Brand programs or services, such as above-property sales offices and IT have seen material reductions as our operators have restructured their shared services organization. Finally, costs below the gross operating profit line, which include taxes and insurance and are traditionally completely fixed, saw modest reductions in the fourth quarter due to one-time credits such as operating profit guarantees associated with the Marriott Transformational Capital Program.

As a result of our property and brand management team's efforts to ensure that cost growth remains in-line with slowly improving revenues, our quarterly expense reduction ratio, which measures the year-over-year decline in property-level expenses divided by the year-over-year decline in total revenues, was fairly stable at approximately 0.8 in the second, third and fourth quarters. This means that for every 1% decline in year-over-year total revenue, our hotels reduced year-over-year expenses by 0.8%. The question now is what this ratio looks like as revenue returns in 2021. We have always expected to reach a plateau where the ratio deteriorates as services and standards return through the middle of the revenue recovery. Although we still expect this to be the case, because 2021 is a transition year, our hotels are striving to achieve an expense reduction ratio of between 0.65 and 0.70 throughout the year, as measured by property-level expense and total revenue declines relative to 2019.

Fourth Quarter Hotel-level Operating Loss

Moving on to hotel-level operating losses, we improved our quarter-over-quarter results by 23% mainly by increasing revenues while keeping hotel expenses relatively stable. Most of the increase in expenses was associated with the five hotels that we reopened in the fourth quarter as well as greater business volumes overall. Our hotel-level operating loss averaged $25 million per month in the fourth quarter down from approximately $32 million in the third quarter, including the $15 and $23 million of employee retention credit our managers received in 2020 under the CARES Act and passed on to us in the fourth and third quarters respectively.

Excluding these one-time credits, our monthly hotel-level operating losses in the fourth quarter averaged approximately $30 million and were better than the $40 million of hotel-level operating losses we outlined on our third quarter call, primarily due to revenues being approximately 35% higher on a sequential basis in the fourth quarter.

First Quarter Hotel-level Operating Loss Outlook

We expect first quarter hotel operations to be broadly commensurate with the fourth quarter of 2020 as further improvement in fundamentals may be offset by leisure demand being seasonally weaker in the first quarter than the fourth quarter, which benefited from strong ADRs and occupancies in the days leading up to and including New Year's Eve. We therefore expect an average hotel level operating loss of approximately $30 to $35 million a month, not including any one-time credits our hotels may receive in the first quarter. Adjusting for interest payments and corporate G&A, we expect monthly cash burn from operations to range between approximately $49 to $54 million.

2021 Outlook

With regards to our outlook, it remains challenging to forecast precisely when we will achieve hotel-level EBITDA breakeven and profitability in the second-half of 2021 as much depends on the success of vaccine administration and the continued easing of state and local restrictions. Following the first quarter, we expect a gradual sequential improvement in RevPAR. We anticipate this to be occupancy driven in the second and third quarters when ADR may sequentially decline as suspended luxury and upper upscale hotels reopen. Our research indicates that operations at approximately 13.5% of luxury and upper upscale hotels in our top 25 markets are currently suspended and likely to reopen at low occupancies during the second and third quarters of this year.

Breakeven Analysis

Turning to the 20 hotels that have achieved breakeven or positive hotel EBITDA in the fourth quarter, break even generally has been achieved in the 35 to 45% occupancy range with ADR's down in the approximately 15 to 30% range compared to 2019, which is in line with the estimates we first provided in April. Assuming the inclusion of corporate level expenses for interest and corporate G&A, we would breakeven at occupancy levels of approximately 45 and 60% at the same ADR decline levels of 15% to 30%.

Balance Sheet

Moving on to the balance sheet, the second amendment to our credit agreement has increased our acquisition capacity to $2 billion using existing liquidity with a minimum liquidity requirement of $600 million. The capacity may include $500 million of proceeds from asset sales that would otherwise have been required to repay debt, as long as we use the proceeds to acquire assets that are unencumbered by debt. In addition, we have retained our ability to redeploy $750 million of asset sale proceeds into acquisitions via the 1031 exchange process, while extending our leverage covenant relief period through the second quarter of 2022 and our leverage covenant easing period through the third quarter of '23. In so doing, we have created cushion for our internal recovery as well as capacity to accommodate external growth opportunities.

Taxes

There are a couple of additional items I would like to bring to your attention. First, we recorded an income tax benefit of $220 million in 2020 due to the net operating loss incurred by our TRS. As a result of legislation enacted by the CARES Act, this net operating loss may be carried back up to five years in order to procure a refund of previously paid federal corporate income taxes. We anticipate that our TRS will incur a net operating loss in 2021 and that we will continue to record a corresponding tax benefit in the first quarter of 2021.

New Historical Proforma Disclosures

Second, we have included schedules with historical proforma hotel metrics in our fourth quarter 2020 supplemental. The metrics include quarterly RevPAR, occupancy, ADR, revenues, EBITDA and adjusted EBITDAre going back eight quarters to the first quarter of 2019 and we plan on updating this schedule quarterly.

Conclusion

To conclude, our focus and three strategic objectives continue to be to redefine the operating model, gain market share and strategically allocate capital. Over time, we expect to recover to 2019 levels of RevPAR with costs that may be $100 to $150 million lower than they were in 2019 on a nominal basis with a portfolio that's gaining market share and outperforming its comp set. We are positioned to have robust revenue and EBITDA growth that we expect will be further augmented by external growth opportunities. And with that, we will be happy to take any questions. To ensure we have time to address questions from as many of you as possible, please limit yourself to one question.

Q&A

OPERATOR: (Operator Instructions). Our first question today is coming from Smedes Rose at Citigroup.

SMEDES ROSE, CITIGROUP: Hi. Good morning. Jim, I wanted to follow-up on your commentary around the pipeline of – I think, you called them interesting and actionable properties and that sounds like quite a bit of a change from your last call. And I'm just kind of wondering if you could talk about what's causing more opportunities to come to light for you and maybe if you could just kind of touch on how you're thinking about underwriting those properties as we move forward.

JIM RISOLEO: Sure, Smedes. Happy to address your question. I think what has changed is the simple fact that a lot of owners of hotels who were holding off bringing their properties to market have now started - as we have messaged today - to see light at the end of the tunnel here, right? I think that you can tell from our commentary and from our release that we feel confident that assuming the vaccine continues to be rolled out and there isn't any disruption due to new variants being found which it doesn't appear to be today anyway, it's the beginning of a new cycle. And there are a lot of buyers who've sat on the sidelines to wait for the time when there might be more buyer interest and we're starting to see that now.

The pipeline has truly meaningfully expanded between the fourth quarter and the early part of this year. So, when I say they're actionable opportunities, these in many instances are private owners who have wanted to monetize their investment for one reason or another. Modestly along the lines of distress. There's not that much distress out there, but we are seeing owners who say this is the time to take these assets to market. I don't think that there is a lot of just price analysis occurring based on the conversations we're having. These are people who really want to sell their hotels.

Now, we are in a really unique position given the fact that we have $2.5 billion of cash and we have the ability to acquire up to $2 billion of assets out of existing liquidity subject to maintaining $600 million of liquidity inside the company. And that gives us the ability to go out and buy hotels on an all-cash basis without the need to obtain debt financing, which is a distinguishing factor for us. And we have very strong, deep relationships having been in this industry for over 30 years and a very solid reputation, the ability to move quickly and to get deals done.

The other thing I think that is bringing people to market today is the fact that the debt markets are opening up. So, we expect that there's going to be competition from private equity firms. There's no question about it, but we're happy to have that competition. I think that the print for the fourth quarter on what we've been able to accomplish on margins in a very challenging environment gives us a high degree of confidence that between our enterprise analytics group and our asset managers that we can find ways to create value even in the environment that we're in today.

So, we're confident that I don't know how many deals we're going to get done, but we do believe that we're at the beginning of the cycle. We came in to 2020 in the best shape that the company has ever been in because in large part we believed going into 2019 that we were heading into the end of the lodging cycle and we were prudent in our capital allocation strategy and I think it's going to pay off for us because it's giving us the opportunity to acquire hotels as the economy reopens and as the lodging cycle begins anew.

ROBIN FARLEY, UBS: Jim, I was interested in your comment about looking outside of the top 25 markets now when you think about acquisition. Would that still be urban or are you thinking more resort? And as kind of part of the same question, I'm just wondering when you talk about IBM Watson is there some risk with that data points that are – that a, I would think these data points are going to continue that are really driven by temporary dynamics, and that we know will be temporary and the things that will change but it wouldn't necessarily be obvious to a machine predicting based on data points from the last two years, I guess, just thinking about that with the markets you're looking at. Thanks**.**

JIM RISOLEO: Yeah. Let me start by addressing IBM Watson, Robin. It's a powerful tool for us. It does give us an opportunity to evaluate markets through predictive analytics as I mentioned. I will say that it's one tool that we use. We are still substituting, we would never substitute IBM Watson for our judgment on what we see happening in markets. And so, it takes into account a lot of data. We have always looked at structured data, and we continue to do that. IBM Watson looks at unstructured data. And, yes, the world has changed, but I think that the unstructured data is out there and we're very fortunate to have a tool like IBM Watson to capture that data.

Additionally, as we think about markets, we are looking at markets where we believe that we can acquire hotels that will allow us to grow EBITDA at a higher level than our existing portfolio of assets. So, in addition to looking at top line, we will be studying in detail the expense profile of each hotel because it's critical that, yes, you have strong revenue management and you have the ability to sell your property, but it doesn't do you a lot of good if you don't have the flow through.

So, controlling expenses is absolutely critical to how we look at properties going forward. I will tell you that one of the reasons we're looking at markets outside the top 25 today is because we think that expense growth, at least for the near term, is likely to be higher in major urban markets as we come out of this, just given cost pressures that the urban markets are facing today.

So further to answer your question, resorts, I think, our resort story is incredible. If you look at the statistics, the RevPAR index shares we've been able to achieve on the 16 resort properties we have. And if you look at specific resort markets like Miami, the Gulf Coast of Florida and Phoenician, we couldn't be more pleased with how our resorts have kept performed. So yes, they'll be at the top of the list. But I would tell you more importantly, it's going to be assets where there are multiple demand drivers. So, we are going to continue to look for properties where there's a mix of business transient, leisure transient and group. We are strong believers in having diversity of demand and giving us the ability to pivot from one type of demand to the other depending on market conditions.

NEIL MALKIN, CAPITAL ONE SECURITIES: Hey, good morning, everyone. Jim, I think it's a good idea to generally avoid the markets where you have that ridiculous union pressure, making it unprofitable to operate. My question for you is on Hawaii. It's a big part of your portfolio. Maybe I think it's your either one or two largest market.

I think that was actually one of the saving graces early – relative to our expectations. ADR was very high, even though occupancy was around sort of maybe portfolio average. Can you just give an update on sort of how you see Hawaii playing out in terms of demands, sort of pent up demand and then like maybe what the Asian travel kind of story or timeline looks like for that market as well?

JIM RISOLEO: Sure, Neil. Our EBITDA in Hawaii is concentrated in three terrific hotels located on Maui. The visitation to Maui is driven by domestic US travel. It's really not driven by Asian travel. Asian travel heads to Oahu and the big island of Hawaii, predominantly not on Maui. So, the ability that we have had on Maui to hold rate and to see rate pacing – total revenue pace up 11% in the back half of 2021, I think speaks loudly to the desirability of Maui and our resorts in particular.

So, we actually figured out how to navigate the testing requirements and the other requirements the state of Hawaii had put in place and took a family vacation to Maui over Christmas. And even though occupancies were very low, ADRs were very high. So, I think that we are going to continue to see Maui and Hawaii travel increase particularly as the vaccine gets rolled out.

What's apparent to us is that there is incredible pent-up demand out there, particularly on the leisure side and the amount of money that has been saved as a result of the various restrictions and lockdowns and the fact that people aren't going to the office and they're not commuting, they're not going out to lunch, people aren't going out to dinner is pretty incredible. So, we will continue to see Hawaii grow over time. And the other data point that is just very, very encouraging is what we're seeing with respect to villa bookings at the Andaz. The fact that we had a $3,700 ADR during the month of December for the villas, and how we're getting incredible demand on our 19 new villas that aren't even complete. So, we're bullish on Hawaii. And we think that leisure is going to really continue to carry the day as we see business transient and group evolve.

MIKE BELLISARIO, BAIRD: Good morning, everyone. Jim, you gave a lot of info. Just a question for you on the leisure side. You gave a lot of detail, specifically on leisure-heavy markets and them doing so well. Maybe can you be able to give us the other side of the coin? What's the update? What are you seeing in your coastal urban markets both from a group and transient perspective? And then you mentioned the sequential BT uptick. Is that occurring in any of these more impacted gateway markets?

JIM RISOLEO: Yeah. I'll take part of this. I'm going to ask Sourav to also provide some commentary on it as well. So, not surprisingly the urban markets are still in various stages of restrictions. As an example, in California you still have and certainly in Los Angeles County I don't know about San Francisco, but in L.A. County indoor dining is still closed. So, you have the ability to eat outside at a restaurant. Gyms are closed. Other amenities like hair salons, nail salons are open, but with 25% capacity. New York, as an example, Broadway is closed. They've opened up indoor dining. So, until we see services return to normal and we're hearing that Broadway could open up soon. But until we see services return to normal, I don't think you're going to see a lot of the demand in the coastal markets. Sourav, do you want to touch a little bit on BT trends?

SOURAV GHOSH: Yeah. Sure. On the BT front not as much demand as you would expect right now in the coastal urban markets. We are seeing some demand as it relates to consultants. So, the Deloittes and PWCs of the world, as well as some project teams that are certainly going to these markets as well, obviously some government − in government contract business as well. So, at the end of the day when you think about it the offices really need to open up and the companies need to get comfortable with their folks traveling on business. And when that does happen that's when travel, BT travel will really come back in a meaningful way. And as Jim mentioned, just given the cadence of the recovery that we are seeing with the vaccine administration across the US, that poses really well and we are optimistic that recovery then will occur sooner rather than later.

I would mention just one thing on the group front is we did do future bookings of about 73,000 room nights from 2022 and beyond. And the encouraging sign there is that 30% of those 73,000 room nights was made up of Boston, New York, and Seattle. So, those are again obviously urban markets. And that's an encouraging sign for the future.

JIM RISOLEO: And Mike, the other thing I would add here, and this will impact the urban markets. We've had conversations with our managers obviously around a lot of matters. But in particular when we're talking about BT, we are of the opinion that we might see 50% to 60% of corporate travel returning by quarter four this year. So, that's an encouraging sign for us. The other encouraging sign is that most special corporate accounts have held rates flat in 2021 versus 2020. And if you recall 2020 was flat to 2019. So, that's a very encouraging sign that corporate accounts aren't pushing back on rate when they're negotiating.

So, there are a lot of green shoots out there. And again, not to keep talking about the vaccine, but it's all dependent on the country getting vaccinated and us achieving herd immunity and offices opening up and people getting back on the road.

SHAUN KELLEY, BANK OF AMERICA: Hi. Good morning, everyone. I wanted to dig in for a moment on one of Sourav's comments. Just talking about the flow-through kind of coming out of this crisis and Sourav, appreciate you kind of trying to put that into terms that I think we'll understand as analysts. I just want to sort of reframe it a little bit. I think what you said was you could expect for this year something like $0.65 to $0.70 on the $1 of rev – of like, let's call it, revenue flowing through to the bottom line.

So, wanted just to clarify, am I thinking about that correctly? And then two, if I am, if we go back and look, I believe the flow-through rates, let's go back to like 2009, 2010, at least as an industry they were they were decently lower than that.

And I believe what happened was occupancy hadn't fully recovered yet. And so, it took a little longer to hit those really high flow-throughs because first you're filling up. There's more variable expense attached to that. And then it's really the rate portion of the equation that drives the higher flow-throughs. But is that going to be – is that equation going to be a little different this go around and/or could you see higher flow-through as rate actually starts to come back as well? So just maybe help us break that down a little bit.

SOURAV GHOSH: Sure thing. So, let me just give an example so it puts the numbers into perspective. If you just take the business travels numbers for 2021, they're estimating RevPAR down 56%. What we are saying with this expense ratio and let's take the midpoint of what we're saying between 0.65 and 0.7, that's 0.675, well, if you take that 0.675 and multiply that by the 56%, all we are saying is that expenses would reduce by 37.8% that's what we are saying is to the mid-point in 2021.

We have not seen this is the last downturn where we went − had a ratio as high as 0.8. It got as high as 0.69 back in 2009 relative to the peak and that with every subsequent year obviously that ratio starts going down as expenses starts coming back.

So, this time around definitely more incremental expenses are being taken out, so you would expect better flow-through to your point as ADR starts coming back in a meaningful way. And the quicker the revenues come back, the better the flow-through will be because you would also be –as you're having the benefit of expenses not growing at inflation over multiple years. So, the sooner revenues come back, the better flow-through is going to be, the quicker you would have margin expansion. Hope that makes sense.

LUKAS HARTWITCH, GREEN STREET: Hey, Jim. Along the lines of the AC Hotel development and The Phoenician land sale, I'm just curious if there are more opportunities in the portfolio to unlock hidden value that maybe aren't apparent due to – us in terms of the disclosure that we get?

JIM RISOLEO: Sure. There are, Lukas. And we are very thoughtful about having conversations with respect to value enhancement opportunities until our projects are permitted and are designed and are underwritten. And that is one of the reasons why we were really happy to share with you today in my comments, what we're doing at our Ritz-Carlton in Naples. So, the ability to truly create what we believe based on our underwriting is a 12% cash-on-cash return on that value enhancement opportunity addition – in addition to really truly increasing the underlying value of that hotel through the repositioning of it, the addition of suites and the refresh of the guest rooms and the bathrooms in a luxury resort is very attractive to us.

And we are working on a number of additional opportunities to either add rooms at properties where we think it makes sense to take excess parcel of land, where it makes sense, and develop a select service hotel on it. So, the short answer is you'll be hearing a lot more from us over the course of time as we move through the entitlement process and as we complete our design, costing, and underwriting. And it's – we have a whole team in design and construction who is on this. We're in a unique position as a company because we have an integrated workforce with design and construction, asset management, enterprise, analytics, investments and the like within the company to do this sort of work. So, we're excited about it. It's a key focus for us. We think that at many times, it's – you're in a better place to invest in your own assets than you are to make acquisitions. That's not saying that now is not the time to make acquisitions, it is. But we're going to continue to invest in our properties as well.

ANTHONY POWELL: Hi. Hello, everyone. Just a question on, I guess, competition for transactions. It seems like the resort in Sunbelt opportunities seems to be very popular right now. Do you see more competition for those hotels versus maybe recovery plays in urban markets? And how do you think cap rates are going to trend between kind of Sunbelt resort, urban group and urban, I guess business transient hotels? And how do you view cap rates going in as a part of your underwriting as you look to buy hotels this cycle?

JIM RISOLEO: Anthony, I think that cap rates are one metric of the underwriting. Obviously, by and large, there aren't many hotels out there today that I would deem to be stabilized operating – that have stabilized operating models as we're looking at them. We obviously look back at 2019 and get a sense of how the asset would have traded at that point in time, what the cap rate might have been back then and apply that to the pricing expectations that a seller has. And it's just – it is – it's all over the board today.

We're seeing certain assets that are going to trade at a discount to pre-COVID pricing. We're seeing assets that are going to trade at pre-COVID pricing. Cap rate is one metric that we're looking at. But we're also looking at how quickly we think we can stabilize the asset, what the EBITDA growth will be – what that EBITDA multiple is going to look like, what the discount to replacement cost is, supply/demand factors in any given market. It's just a number of different things today. I mean, there's not one way that you're going to underwrite a hotel in this environment. I would tell you that it's – if you think about a barstool, it's multiple legs on the stool. Cap rate is one, EBITDA multiple is another, replacement cost is yet another and demand trends in any given market. So, there is not one way to do it. We're taking into account a lot of different things in our underwriting model.

ANTHONY POWELL: Got it. And what about competition? Do you think it will be easier to maybe buy urban hotels this time around than the resort properties that are popular right now?

JIM RISOLEO: I think it's too soon to say that. Clearly, the urban markets are going to recover. It's just a question of when the restrictions are lifted, when people get back to work, when international travel starts coming back into the US. So, I would not write off the urban markets. But they're going to recover a little slower than the resorts and in certain other markets just given the dynamic that I've referred to.

OPERATOR: And we have reached the end of the question-and-answer session. And I'll now turn the call over to CEO, Jim Risoleo, for closing remarks.

JIM RISOLEO: Well, thank you, all, for joining us on the call today. We really appreciate the opportunity to discuss our fourth quarter results with you. And we look forward to talking with you over the coming weeks and months, hopefully in person. Please stay healthy and positive and have a great day.