Transcript of
Host Hotels & Resorts Inc
Second Quarter 2020 Earnings Webcast
July 31, 2020

Participants

Tejal Engman – Vice President of Investor Relations
Jim Risoleo – President and Chief Executive Officer
Brian Macnamara – Principal Financial Officer and Controller
Sourav Ghosh – Executive Vice President, Strategy and Analytics

Analysts

Anthony Powell – Barclays
Michael Bellisario – Baird
Shaun Kelley – Bank of America
Neil Malkin – Capital One Securities
Bill Crow – Raymond James
Rich Hightower – Evercore
Lukas Hartwich – Green Street Advisors
Smedes Rose – Citi
Chris Woronka – Deutsche Bank

Presentation

OPERATOR: Good day, and welcome to the Host Hotels & Resorts Second 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, 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 results. You can find this information together with reconciliations to the most directly comparable GAAP information in today's earnings press release, in 8-K filed with the SEC, and in the supplementary financial information on our website at hosthotels.com.

Participating in today's call with me will be Jim Risoleo, President and Chief Executive Officer; Brian MacNamara, Principle Financial Officer and Controller, and Sourav Ghosh, Executive Vice President, Strategy and Analytics.

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. We hope that all of you are staying safe and healthy during these extraordinary times. The lodging industry experienced a challenging second quarter, with record RevPAR declines in April, followed by a slight improvement in lodging demand through May and June. Working with our operators, we responded swiftly to the changing demand landscape by reducing our second quarter hotel operating expenses by 72% year-over-year.

As states and markets began to ease their lockdowns, our portfolio achieved over 100% hotel revenue growth from the lows of $24 million in April to $49 million in June. Toward the end of the second quarter, we successfully amended our credit agreement and achieved outstanding terms that preserve our liquidity and retain our flexibility to capitalize on value-enhancing investment opportunities. All in all, we emerge from the most challenging quarter on record for Host and the travel industry, with significantly lower operating costs, greater balance sheet flexibility, and access to $2.5 billion of liquidity.

Second-Quarter Operations Update:

Starting with operations, our second quarter expense reductions and revenue growth were driven by exceptionally agile asset management and the swift reaction of our world-class operators. As lodging demand plumbed to record lows in April, we worked with our operators to suspend operations at 35 hotels, reduced hotel fixed cost by approximately 50%, and reduced overall hotel operating costs by 72% year-over-year. Cost savings were primarily driven by steep reductions in wage and benefit expenses and the fixed portion of above property allocated cost, as well as by suspending most brand standards and contributions to hotels FF&E reserve accounts.

At operational hotels, our managers significantly scale down operations by closing guest room floors and meeting spaces. When leisure demand began improving through May and June, we swiftly pivoted to reopen hotels and work with our operators to drive 380 basis points of average occupancy gains and a 50% increase in average room rates across the portfolio from April to June. As of yesterday, 64 of our 80 consolidated hotels, representing 78% of our total room count, were operational.

Hotel Reopenings:

We prioritized reopening eight suspended hotels located in drive-to leisure markets including Florida, San Diego, Phoenix, San Antonio, and Orange County as these markets captured leisure demand and delivered higher second quarter RevPAR than the rest of our portfolio. We currently expect another six hotels to reopen in August with operational rooms representing nearly 90% of our total room count by month end. As a reminder, we work with our operators to reopen a property when it's expected to sustain approximately 10% to 15% occupancy levels. At those levels, we expect incremental revenues to exceed the incremental cost of being operational, resulting in marginally lower EBITDA losses.

Our preference is for hotels to remain operational rather than suspended, because an operational property is capable of capturing spontaneous short-term demand and better positioned to attract future demand when the

market begins to recover. All that said, we continually review our hotel's occupancy trends and won't hesitate to suspend a hotel's operations, when the marginal benefit of remaining operational turns negative.

For instance, we are currently reviewing the New York and San Francisco markets. New York has been slow to reopen with the recent pause on indoor dining and the cancellation of the 2020 United Nations General Assembly and New York Marathon event, while San Francisco has enacted an onerous costly and unnecessary operating ordinance.

Second Quarter Hotel-level Operating Loss and June 30th Liquidity Position:

As we deliver both significant expense reductions and gradual revenue improvement, we reduced our hotel level operating loss by nearly 50%, from $73 million in April to $37 million in June. Our hotel level monthly operating loss averaged $54 million, while above property corporate level monthly cash flows averaged $79 million in the second quarter, with the latter reflecting a concentration of CapEx, which is expected to decrease by approximately $100 million in the second half of the year.

We ended the second quarter with $2.5 billion of available liquidity, which includes $750 million of available capacity under the revolver portion of the credit facility, as well as over $150 million of FF&E escrow reserves.

Assuming operational performance remains at second quarter levels, we would expect approximately $100 million to $110 million of total monthly cash outflows, reflecting an average hotel level loss of approximately $50 million a month, as well as estimated capital expenditures, interest payments, and general corporate overhead.

In this scenario, we would expect to end 2020 with approximately $1.8 billion to $1.9 billion of total available liquidity. If operational performance remains at second quarter 2020 levels beyond year-end, we would have ample liquidity until mid-2022. Even with CapEx near 2020 levels, subject to continued covenant waivers for our credit agreement.

Second Quarter Balance Sheet:

Moving on to our balance sheet. Our quarter-end leverage ratio as defined in our credit facility, was at 4.6 times. Our interest coverage ratio was at 4.4 times. And our fixed charge coverage ratio was at 2.7 times. All of which were within the limits specified in our prior credit facility covenants. With the amended credit agreement in place, our quarterly-tested financial covenants were waived beginning July 1, 2020 through the second quarter of 2021, with testing to resume for the third quarter of 2021.

Although, the duration of this pandemic-induced crisis remains unknown, we continue to expect our liquidity position and balance sheet capacity to remain key comparative strengths that differentiate Host as one of the few lodging REITs that is less likely to need to issue equity expressly to de-lever its balance sheet.

Second Quarter Business Performance:

Shifting to business performance, we saw clear signs of a recovery in consumer demand through May and June as state and market lockdowns began to ease. Our booking pace indicated a solid pickup in June and the trend leading into the third quarter but has since decelerated since daily infection rates in certain markets have spiked. 13 of our top 20 markets have regressed their reopening phases in the last 3 to 4 weeks, while the other 7 remain in their existing phase. Needless to say, this trend has impacted our reopening plans.

When Hawaii announced that in August 1, they would lift the 14-day quarantine requirement for travelers who test negative for COVID-19 up to 72 hours prior to arrival, our the on-the-books occupancy for our Maui resorts quickly reached the mid-teens. We, therefore, expected to reopen the Andaz Maui and the Fairmont Kea Lani in August. But have now delayed our reopening plans as Hawaii has extended the quarantine through at least the end of August.

Group and Business Transient Update:

Surprisingly, we saw some group business in the second quarter despite the absence of a vaccine or an effective therapeutic. Excluding New York, which benefit from COVID-19-related emergency services group business, traditional group business showed signs of improvement as it grew from 1,700 room nights sold in April to 12,855 sold in June.

For the whole portfolio, business transient room nights grew 150% to 12,450 room nights in June after bottoming at 4,850 room nights in April. While business transient demand has primarily been driven by defense contractors, we have begun to see consulting-related business travel in July. Government transient room nights also improved from 650 room nights in April to 6,450 room nights in June.

Finally, contract business held up relatively well in the second quarter, with 43,000 contract room nights sold in the quarter. Our San Antonio hotels increased airline crew volume year-over-year, while Newark Airport, Hyatt Place Waikiki and Grand Hyatt Buckhead all saw production improved throughout the quarter.

As of June, our properties have 1.8 million rooms on the books for the full year 2020, down nearly 62% from 4.6 million group rooms same time last year. Our total group revenue pace is down 81% in the third quarter and 49% in the fourth quarter. And we continue to expect group cancellations in the second half of the year.

Group Rebooking's:

We have rebooked approximately $120 million of canceled total group revenues, with an additional $96 million in the pipeline, that collectively represent nearly 21% of the total group revenue that canceled this year. We are also working with our operators to find creative ways to fill the demand gap, with long-term group blocks from schools, sports associations, and corporates. For example, Houston Airport Marriott received a large corporate group booking of 175 rooms per a night from July to December, in addition to another corporate group booking of 100 rooms per night on a month-to-month basis. The rooms are being used to quarantine COVID-19 negative employees for 14 days prior to international deployment.

Looking at next year, we are experiencing a high-single digit deceleration in our total group revenue booking pace for 2021 as measured by definite revenues on the books. With most of the deficit concentrated in the first half of next year and minimal impact to the second half. Our tentative revenues, however, are tracking nearly 30% ahead of the same time last year reflecting robust pent-up demand that's waiting for the current health and safety risk to subside.

Branded Hotel Advantage:

Our business outlook depends upon how quickly we as a nation can flatten the rate of new COVID-19 infections, while we await a more effective solution, which we expect will take the form of a vaccine. In the interim, increasing

consumer's confidence in our industry has never been more important. The major hotel brands have been proactive in creating, implementing, and communicating new cleanliness and health and safety standards, including corporate requirements for face coverings to be worn within indoor public spaces.

These safety protocols help address the risk of contagion and establish trust with consumers. Specifically, at Marriott, long known for consistency and reliability, we expect their commitment to clean program to resonate with both business and leisure customers alike. Encouragingly, as a percentage of second quarter revenues, our direct sales through marriott.com increased 400 basis points over last year, compared with sales through OTAs increasing by 200 basis points.

As we have consistently said, Host benefits from our strong affiliation with world-class hotel brands. We continue to believe that beyond strong loyalty programs, brand trust and reliability will be differentiators that will help Host outperform during the recovery.

We remain deeply committed to redefining our operating model, with the immediate goal of achieving breakeven as soon as possible. And the longer-term goal of generating higher profitability and lower levels of occupancy. In the 2009 recession, several operating expense line items were significantly reduced and continued to improve through the cycle. Downturns compel owners and operators to re-evaluate brand standards, programs and above property expenses, an exercise that can result in long-term savings and a healthier hotel operating model that better serves customers' changing needs.

Potential Long-term Cost Savings:

To that end, we are working with our operators to deliver permanent cost savings at the hotel level through the following three key initiatives. First, to achieve a long-term reduction in the fixed component of above property charges. Second, to adopt productivity enhancing technology such as the use of mobile key. And third, to drive efficiencies through the cross-utilization of management functions.

While achieving these long-term permanent cost savings is conditional upon reaching an agreement with our operators, we have analyzed the potential benefits they could have on our operating model. Based on 2019 revenues, we believe these measures have the potential to reduce annual hotel level expenses for our current portfolio by an aggregate $100 million to $150 million, which represents approximately 3% to 4% of pro forma 2019 hotel level expenses.

Supply Outlook:

Turning to our supply outlook, although there has been little evidence of a material decline in supply so far, there is a historical pattern of supply rationalization after large demand shocks. When we look at the historical supply trajectory for the top 60 to 70 markets, rooms under construction in major markets fell by 68% two years after the peak of 2008 and we're down 77% by mid-2011.

We, therefore, expect supply will be mitigated over the long-term, with rooms under construction declining over time and likely bottoming at even lower levels than in the last recession, given the significantly greater degree of distress.

In addition, we expect record levels of permanent hotel closures due to the unprecedented level of distress in the market. According to Trepp, the lodging delinquency rate has risen from 2.7% in April to 19% in May and has reached approximately 24% in June. Our analysis indicates that nearly 30% of upper-tier hotels in our top 20

markets are temporarily closed. 7 hotels in our top 20 markets are reported to have permanently closed already, and we expect more of the temporary closures to become permanent.

Conclusion:

To conclude, we have experienced 4 months of significant economic uncertainty as our nation lockdown began to reopen, flattened infection rates in certain markets, and experienced sharp increases in others. Although, we expect economic uncertainty to prevail until the health and safety risk posed by the pandemic are fully addressed, we are encouraged by the following.

First, our operators' ability to adapt the operating model to record low levels of demand by reducing our hotel level operating cost by 72%. Our goal is to make a portion of these cost reductions permanent and to achieve higher levels of profitability and lower levels of occupancy.

Second is the resilience of lodging demand, which began to return as states and markets reopen and as our booking trends indicated, would have been greater had infection rates continued to flatten rather than rise. Although, there is some debate about the future of business travel as professionals grow accustomed to virtual meetings, we would note that US occupancy has achieved higher peaks following the last 3 downturns including 9/11, where many believed air travel would be permanently impacted.

While speculating on long-term behavioral trends in the midst of the biggest global health and safety crisis in a century is likely to be unproductive, business transient and group business customers have a proven track record of choosing the effectiveness of in-person interactions despite the efficiency of videoconferencing technology.

Finally, we are confident in the strategic advantages provided by our financial capacity to withstand prolonged business disruption. Host is differentiated in its potential to not only survive this crisis, but also to capitalize on future long-term value creation opportunities that meet our strategic objectives. We are excited to have entered a new cycle with the highest quality portfolio of iconic and irreplaceable hotels in the company's history and likely in the lodging industry.

When demand recovers, we believe that the quality of our assets, many of which will be newly renovated, will be a true differentiator that will help us gain RevPAR index share and outperform the industry. We continue to believe in the strength of both geographic and demand diversity through the cycle. Geographic diversity will serve us through an uneven recovery, as various states and markets recover differently, while demand diversity will help us drive optimal revenue management and pricing through the cycle.

Our remarks would not be complete if I didn't mention how conversations about confronting systemic racism have reverberated throughout our society. Diversity, equality and inclusion, remain at the forefront of our priorities and integral to our corporate values. I was proud to recently join the CEO Action for Diversity & Inclusion initiative, and as an organization, Host remains committed to fostering these values in our company and our communities.

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

BRIAN G. MACNAMARA (PRINCIPAL FINANCIAL OFFICER):

Introduction

Thank you, Jim. Good morning, everyone. Building on Jim's comments, the volatility in the second quarter was unprecedented as the demand landscape changed over the course of the quarter. Although, second quarter RevPAR declined by 93% year-over-year, it grew 133% from the depths of the crisis in April through the end of June when 10 of our hotels exceeded or were close to achieving breakeven EBITDA.

RevPAR and Cancellation Revenues

For the quarter, we delivered a RevPAR of over $14 driven by average occupancy of 8.8% and an average room rate of approximately $162. Total RevPAR of approximately $23 benefited from $14 million of mostly COVID related group cancellation and attrition revenues recognized in the second quarter, compared to $10 million of similar revenues recognized in the first quarter. In the second half of this year, we do not expect to recognize any further cancellation and attrition revenues related to the pandemic, as we continue to prioritize the rebooking of group business.

Health Benefits and Special Pay Related to Furloughed Employees

Our second quarter results include a $45 million payment for health care benefits and special pay for the nearly 80% of hotel level employees that have been furloughed. We have accrued $35 million for that expense in the first quarter. In the second quarter, we accrued an additional $32 million for similar payments that will be made in the third quarter. The decrease in the third quarter, primarily, reflects the reopening of several suspended properties since April.

Breakdown of Hotel-level Operating Expense Reductions

As Jim mentioned, we work closely with our operators to reduce expenses and have realized a 72% decrease in second quarter hotel level operating costs. Our wage and benefit expense during the quarter was approximately 81% lower, excluding onetime wage and benefit-related special costs. Our variable costs decreased 93% due to lower occupancy, while our fixed costs, including fixed wage and benefits expenses, were approximately 50% lower.

The decrease in fixed costs was driven by wage and benefits, above property cost relief, utility expense and property-specific sales and marketing reductions that partially offset other fixed costs such as property tax and insurance. Although, long-term costs associated with revised cleanliness protocols are yet to be fully determined, we believe the cost increase will be more than offset by productivity improvements.

Our operators provided significant cost relief for above property shared service and allocated costs, which are normally considered fixed. These costs include sales offices, rent revenue management, advertising, the program services funded Marriott, centralized human resources, accounting, payroll, as well as IT systems, and support. These fixed costs saw unprecedented record reductions, with some allocated costs reduced by as much as two-thirds.

Overall, we reduced operating expenses by approximately 72% year-over-year at our low occupancy hotels and by approximately 75% at hotels with suspended operations. For the third quarter, we believe we will see

continued cost containment for wages, benefits, and variable expenses, where cost reductions mirror reductions in overall volume.

With regards to fixed costs, while the brands have not communicated above property service costs target as yet, we expect utility and property-specific sales and marketing costs reductions to continue. Moreover, we would also expect the tax benefit we experienced in the second quarter to continue along the same trajectory.

Second Quarter Revenue Drivers and Market Performance

Moving to revenues. Portfolio-wide average occupancy declined by approximately 73 percentage points year-over-year to 8.8% and our average daily room rate was down 35% but still nearly $162. We have generally found that our operators are able to preserve and in some cases to even exceed rates versus the same time last year at properties that are in high demand on strong compression dates, such as national holidays.

For example, our Florida hotels delivered remarkable ADR growth of approximately 12% year-over-year, with ADR for the month of June approximately $97 higher. Thus far, this downturn has distinguished itself by the fact that average rates decline are not driving occupancy to the extent that they normally would.

Customers are more sensitive to cleanliness and sanitation standards than to room rates. We are hopeful that rate degradation will be less severe than in prior downturns and that branded hotels will benefit from having stringent cleanliness standards that should help gain customer trust and strong loyalty programs that should help drive demand.

Shifting to market performance. Hotels and our drive-to leisure markets, which include Phoenix, San Antonio, San Diego, Florida Gulf, Miami, and Jacksonville were running a 1.8% occupancy at the beginning of the quarter, and had progressed to 17.4% by the last week of June. Although, the portfolio was in negative territory in the second quarter, markets with relatively better performance include Jacksonville, the Florida Gulf Coast, New York, Houston, Los Angeles, Miami, and Atlanta.

The Florida markets, excluding Orlando, benefited from leisure demand. The Ritz-Carlton Amelia Island outperformed STR's upper tier RevPAR in Jacksonville by 600 basis points. While our Miami hotels outperformed their STR peers by 250 basis points of RevPAR. Our hotels in New York and LA benefited from medical-related business, as well as the closure of hotels within those markets. It is estimated that 50% of New York hotel inventory is in suspended operations, and that 20% of closed hotels in Manhattan may not reopen.

In Atlanta. Our hotels in the market benefited from short-term transient demand as well as crew contract business. Our worst-performing markets in the second quarter were Orlando, Boston, Maui/Oahu, New Orleans, Seattle, San Diego and San Francisco, largely due to suspended operations at several of our hotels in those markets through much of the second quarter.

Capex Outlook

Turning to CapEx. At the outset of the pandemic, we reduced our expected 2020 capital expenditures by approximately $100 million, and through the second quarter, we have completed almost 60% of the total CapEx spend we have planned for the year. We received $8 million of operating profit guarantees for the Marriott transformational capital program year-to-date and expect to receive another $12 million over the second half of the year.

Credit Facility Amendment

As Jim mentioned, we successfully amended our revolving credit facility in term loans at the end of June. In the amendment, we accomplished three key objectives. First, we bought our portfolio time to make inroads into the recovery. We suspended the testing of financial covenants through the second quarter of 2021 and gained additional flexibility to accommodate our portfolios recovery for three quarters following the covenant-relief period.

Second, we preserved our ability to capitalize on opportunistic, value-enhancing investments during this period of extreme dislocation. Under the waiver, we have the ability to acquire $1.5 billion of assets using our existing liquidity while maintaining certain minimum liquidity requirements. We have the ability to issue equity without any requirement to repay debt. We have preserved the flexibility to use $750 million of net proceeds from asset sales for reinvestment purposes.

And lastly, we preserved the flexibility to spend up to $500 million in ROI CapEx during the covenant-waiver period. This provides us the ability to continue value enhancing, repositioning and development projects within the portfolio without experiencing revenue disruption, as well as to continue the Marriott transformational capital program which benefits from operating profit guarantees. On behalf of the Host management team, I would like to thank the members of our bank group for their continued support.

Operating Leverage

Looking forward for the rest of the year, we are not providing 2020 guidance at this time due to the continued lack of visibility on the depth and duration of this crisis, the timing of the reopening of individual states and localities and the expected operating restrictions for businesses, as well as individual company travel restrictions.

Once again, we would note that in prior recessions, peak-to-trough declines in hotel level EBITDA have been roughly twice as large as the peak-to-trough declines in RevPAR, although this 2-to-1 ratio should have deteriorated considerably in a near-zero revenue environment, we believe that will continue to hold true for our portfolio due to the significant success in reducing fixed costs at the property level.

Conclusion:

Today, more than ever, we believe that Host Hotels & Resorts is the premier lodging REIT in the industry. We have a high-quality, well-diversified portfolio whose consistent performance is driven by strong in-house analytics and by working with the best operators in the business.

We're the only investment-grade balance sheet among lodging REITs, no significant debt maturities until 2023, and approximately $2.5 billion of available liquidity as of June 30, we are well-positioned to deal with this crisis and to continue to execute our strategic vision to create long-term value for our shareholders.

Thank you. And with that, we will now be happy to take questions. To ensure we have time to address questions from as many of you as possible, please limit yourself to one question.

QUESTION & ANSWER SESSION

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. [Operator instructions]. Our first question comes from the line of Anthony Powell with Barclays. Please proceed with your question.

ANTHONY POWELL Q: Hello, good morning. It's a question on cash burn and capital allocation. How comfortable are you pursuing some of these opportunities like capex and acquisitions with cash burn at $50 million a month at the hotel level? Do you foresee cash burn come down more before you continue with the capex or would you consider maybe reducing capex if cash burn, say, would be level for a long period of time?

Jim Risoleo - President and Chief Executive Officer
Anthony, the way we're thinking about the business today is really quite simple. Liquidity is king, and we are being very thoughtful about how we're allocating funds for capex in 2021. It's something we talk about as a management team all the time, and if we don't see the situation improve, you can expect to see us cut back.

With respect to potential acquisitions, although from a capital allocation perspective, we have the flexibility to invest in up to $1.5 billion of acquisitions with the existing liquidity, subject to maintaining $500 million of liquidity. I'll make a couple comments with respect to that.

Number one, there aren't many opportunities in the marketplace today. We expect to see investment opportunities of latter part of this year and into next year, as special servicers and other lenders resolve issues with their borrowers and in some instances properties are going to come to market, and in other instances, properties are going to be recapped. But, it's the same thought process with respect to buying hotels at this point in time. We have to be comfortable that we're going to have the right amount of liquidity to ride through the crisis.

Operator
Thank you. Our next question comes from the line of Michael Bellisario with Robert W. Baird. Please proceed with your question.

MIKE BELLISARIO Q: Good morning, everyone. Jim, you mentioned a big number of potential cost savings. Can you maybe give us some insight into the conversations that you're having with the brand and then how receptive they are to all those reductions that you listed?

Jim Risoleo - President and Chief Executive Officer
Yes, I want to point out that the number that we discussed was between $100 million and $150 million in permanent cost savings. We were very careful, Mike, to use the word potential cost savings because we have to reach agreement with our operators and it's going to take some time to implement the cost savings on a permanent basis. So, I would tell you that they are very receptive. I think you're going to see, and you've already seen it at Hilton as an example, a meaningful reduction in their corporate headquarters staff. I think you're likely to see it unfortunately at the other brands as well. And, those functions in many instances relate to the shared services that are above-property and we think that there is a good potential that we are going to be able to achieve these cost savings over time.

Operator
Thank you. Our next question comes from the line of Shaun Kelley with Bank of America. Please proceed with your question.

SHAUN KELLEY Q: Hi, good morning, everybody. Jim, you talked about a sequential setback or downturn in your markets. Could you just give a little bit more color there? We see in the industry data that the industry has leveled off but we haven't seen really a step function lower in occupancy levels, even in some of the Sun Belt markets for the hotel base. We've probably seen more abrupt turnarounds in restaurant and other data. So, could you just give a little bit more color about what you're seeing in some of those? I think you called out 13 markets where there had been some regression, so a little bit more color there would be helpful.

Jim Risoleo - President and Chief Executive Officer
Sure, absolutely, Shaun. As we think about it, maybe we were looking at the potential performance in an optimistic way because of the forward bookings we saw for the 4th of July weekend in particular. I'll talk about one market that from our perspective was very meaningful and that is Miami Beach. We have 1 Hotel South Beach; we opened that property in early June. We saw good forward bookings and going into the 4th of July weekend, we expected occupancy in the 70+% range. It didn't materialize because the mayor shut the beaches, shut the bars. As we all know, there was a surge in cases in Florida and we ended up running around 20% occupancy.

So, I think there's good news and bad news in what happened there. The good news is that there is a lot of pent-up demand, and whenever the virus is under control we fully anticipate that people are going to get back on the road and continue to want to travel and to have a good experience at a luxury property. Obviously the bad news is there was a surge in cases and there's nothing we can do about that. I mean, we're all waiting as a nation to get the pandemic under control and I think everyone is waiting for an effective vaccine or vaccines, or a therapeutic to allow people to get back to business.

So, other markets continued to do well over the 4th of July. As an example, the two Ritz-Carltons in Florida, the Ritz Naples and the Ritz Amelia Island, both ran occupancies in the 60%s and achieved ADRs of $600. Those rates were higher than same time last year. Again, we think if we hadn't seen the surge in cases in Florida that we would have done better than we did at those properties. So, if I talk about seeing a deceleration it's really based on our expectations.

Operator
Thank you. Our next question comes from the line of Neil Malkin with Capital One Securities. Please proceed with your question.

NEIL MALKIN Q: Hi, everyone, good morning. I just wanted to go back to the group commentary. You made some statements about 2021 group bookings being below this year. I just maybe wanted to get some more color and me trying to understand that. And then, with the group, can you maybe talk about the landscape for maybe the back half of next year, either in terms of people who have canceled in 2020 or incremental people, groups who are maybe feeling optimistic on what next year could look like?

Jim Risoleo - President and Chief Executive Officer
Sure. I think the message around group was that our total group revenue pace for 2021 is down high single-digits for next year over the same period of time last year. And, most of the cancellations that have occurred in 2021 have occurred in the first quarter, so the business is hanging in there, certainly for the second half of the year. We all hope it's going to show up; we all hope by then that we're going to have a vaccine and/or therapeutic and we'll continue to see groups want to get back into the hotels and have their meetings.

Again, the positive is that our tentative business for 2021 is up 30% over the same time last year, so that just goes to prove that there is a lot of pent-up demand. And, we are fully confident that the group will recover. We've always said that the way this recovery was going to play out was with drive-to leisure transient first, with business transient second, and with group last. And, I think that's exactly how things are playing out.

Operator
Thank you. Our next question comes from the line of Bill Crow with Raymond James. Please proceed with your question.

BILL CROW Q: Good morning, Jim and team. It's a two-part question on one topic, which is long-term or permanent impairment. The first part is on business travel. You sounded confident that you thought business travel would recover to previous levels and cited some historical information. But, we've never really been stressed like this and we've never had the technology that's been proven in such a way, so I'm just curious about your thoughts a little widely whether you see a 10%, or 15%, or 20% permanent impairment in business travel in the future.

And the second thing is are we seeing a long-term or permanent impairment in values of hotels in certain markets where the government reaction to COVID, the labor reaction to reopening might change investors' views? Thanks.

Jim Risoleo - President and Chief Executive Officer
Sure. I'll take the second question first, Bill. I think it's too soon, really too soon to say what's going to happen to values over the long-term. I mean, everybody in the public space is trading at a significant discount to replacement costs today. I think that we are probably less than 50% of replacement cost. I mean, we put some data on replacement costs in our investor presentation for everyone to see, and it's a very granular analysis that we provided. So, some of the assets that are in the market today, at the height of the pandemic, are trading at a 20% discount to where they were valued pre-COVID, where they were valued February 1st. I'm confident that over time as cash flows recover and as EBITDA recovers that values for the most part across the country will get back to pre-COVID levels and improve.

I mean there are going to be some markets where I think it's going to be more challenging quite frankly and those are markets where you're still dealing with supply issues or you're dealing with high cost structures, and those assets might have a bit of a challenge maintaining their value going forward. But, for the most part, I think we're going to get back to where we were pre-COVID and grow from there.

I'll just point out the fact that we have a very strong geographically-diversified portfolio so with no more than 11% of our EBITDA coming out of any one market. So, we are very well-positioned, regardless of what happens going forward.

Your question with respect to business transient and whether or not business transient recovers to pre-COVID levels, I think that the technology has been helpful today. We're doing this earnings call in a couple different locations, and it's certainly not ideal and I know that we would all prefer to be in the same place but we're being careful and thoughtful about safety and health, as everyone else is, but I for one and others are—I think I'm ready to get on the road. I'm done with Zoom calls. I mean, we have had on average 450 Zoom video meetings a week at Host for the last six or seven weeks. So, I think it's good to have Zoom today but we do think that the personal interaction is key.

Notwithstanding that, we have looked at what happens if business transient doesn't come back to pre-COVID-19 levels. And, I think a good proxy is we certainly listened to the commentary that the airlines gave. United has a

point of view that it's coming back fully. Delta had a point of view that it might be 20% impaired. So, we looked at Delta's case of 20% down and said, what does that mean to us? What would we do with our portfolio, our existing portfolio today? How could we remix the business and what would the financial impact be?

So, we looked at really remixing that business transient drop of 20% to leisure, and at the end of the day, it has a de minimis impact on EBITDA. The impact really is on the EBITDA margin because of the business transient slice of the business is our highest rated piece of business. So, we're ready for whatever comes our way with respect to the recovery and it's good to have the different levers to flex in our portfolio where we can take leisure or we can take more group and really revenue manage the company on an asset-by-asset basis on almost a daily basis.

Operator
Thank you. Our next question comes from the line of Rich Hightower with Evercore ISI. Please proceed with your question.

RICH HIGHTOWER Q: Hi, good morning, everybody. Jim, just to follow up on the prior question and maybe to combine it with another question on acquisitions. Look, I mean, at some point it's premature to maybe talk about this right now but maybe sometime in the early to mid- part of next year, Host is going to have the flexibility to go on a shopping spree of sorts, certainly relative to several public and private peers. And so as you think about what the portfolio looks like today, what you want it to look like over the next five to ten years, what's on your screen as far as that is concerned and where is the pot going in terms of what Host should look like again in that five- to ten-year outlook as you think about what the portfolio needs to look like?

Jim Risoleo - President and Chief Executive Officer
Yes, Rich, I think that you're going to see the portfolio likely look like it looks today with a continued focus on upgrading the overall quality of the assets that we own. Let me step back for a minute and just talk about how we think about the business today.

Number one, I've already said it, strong geographic diversification we think is critical. Investment grade balance sheet we think is critical, two really distinguishing factors, and the best portfolio of iconic and irreplaceable hotels in the industry, which we think we have today. So, as we think about building the portfolio out over time, we've talked about this, we like the model that we have with a strong geographic diversification, with a business mix differentiation in the hotel between a combination of leisure transient, business transient and group, so multiple demand generators in strong markets with high barriers to entry. That's how we would think about building the company over the next three to five years.

Operator
Thank you. Our next question comes from the line of Lukas Hartwich with Green Street Advisors. Please proceed with your question.

LUKAS HARTWICH Q: Thanks, good morning. Jim, can you provide an update on the competitive dynamics for hotels versus short-term rentals?

Jim Risoleo - President and Chief Executive Officer
Sure, happy to. I would tell you that short-term rentals right now, and I'm talking about Airbnb in particular, have seen a surge in drive-to leisure business. As the same thing that we've talked about, people want to get out and they have been driving to Airbnbs in drive-to leisure markets. Our point of view is as we start recovering and markets start opening up, the urban markets in particular that are going to be more challenged, we think that the short-term rental business, some of the other platforms that are out there, that were out there, I don't quite know

what's going on with them, but Lyric and Sonder and some of those, as well as Airbnb, are going to face serious financial difficulties. And, it's difficult enough for hotel owners that have well-heeled equity partners with them to work their way through this pandemic with literally no cash flow or minimal cash flow coming in. I think that that issue is compounded by the individual Airbnb owners who have taken on a lot of debt, unfortunately, and nowhere to turn when it comes to servicing that debt. So, I think you're going to see in the urban markets in particular a recalibration of alternative accommodations.

LUKAS HARTWICH Q: Great. And then, do you expect hotels to permanently close in large numbers in markets outside of New York?

Jim Risoleo - President and Chief Executive Officer
I don't know if I can say large numbers today, but I do think you're going to see a lot of hotels adapted for other uses in markets across the country. I think it's too soon to say but there are markets that had excess supply coming into this pandemic and those markets, I think, are going to be fairly challenged coming out. So, I would expect that if people—again it's going to be dependent upon the wherewithal of the individual owners and what the dynamic and fundamental looks like on a market-by-market basis with respect to assets that may be taken back by lenders and what those lenders might do with those properties, and when they bring them to market whether the buyer is going to continue to operate that particular facility as a hotel or look to an alternative use.

I do think it's a little too soon to say but we would expect to see this happen across the country.

Operator
Thank you. Our next question comes from the line of Smedes Rose with Citi. Please proceed with your question.

SMEDES ROSE Q: Hi, thanks. Jim, you mentioned in your opening remarks that Host is less likely to have to issue equity, I assume relative to other hotel REITs. Could you just talk about conditions where you think Host would need to issue equity, particularly I guess relative to maintaining an investment grade rating, potentially not passing the revised covenants, which I know has been pushed out? I mean, can you just maybe talk in general about the potential to have to do that or want to do that?

Jim Risoleo - President and Chief Executive Officer
Well, look, I mean, we think that we are in a unique position along with maybe one or two other REITs that aren't likely to have to issue equity just to de-lever the balance sheet. So, if we look at where our current leverage ratios are and credit covenants are today, or even better go back and look at where we were at 2019, as we came into this year, 1.6 times leverage and interest coverage at north of 9 times, we don't have to get back to 2019 levels to still be in a very strong position from a balance sheet perspective.

So, I don't see instances as I sit here today where we would have to issue equity to de-lever the balance sheet. We don't have to get back to 2019 levels to have a really strong balance sheet. We'll be open-minded around accretive investment opportunities and use our equity to pursue deals that make sense for us that will be accretive to our shareholders.

Operator
Thank you. Our next question comes from the line of Chris Woronka with Deutsche Bank. Please proceed with your question.

CHRIS WORONKA Q: Good morning. Jim, I was hoping to circle back to some of the commentary about potential cost savings on the management side coming out of this. Does that potentially extend to just less brand

managed—fewer brand managed hotels? Or, is there a possibility of negotiating some of the base rate fees or anything like that?

Jim Risoleo - President and Chief Executive Officer
Well, I don't know that it necessarily—I guess, Chris, what I would take from your question is that brand managed hotels aren't a good thing. That's not the way we view the world. We like the affiliation we have with Marriott and Hyatt. We think they do a fantastic job for us. We like the strength of their loyalty program and the strength of their group sales engines in particular for some of our bigger hotels.

That said, I think that there are properties that are more fitting to be managed under a franchise operator model. Those would be the smaller hotels that don't have a big group component and I think the cost savings will come whether they're brand managed or whether they're franchise managed.

Operator
Thank you. Ladies and gentlemen, this concludes our time allowed for questions. I'll turn the floor back to Mr. Risoleo for any final comments.

Jim Risoleo - President and Chief Executive Officer
I'd like to thank everybody for joining us on the call today. I know these are exceptionally difficult and challenging times for all of you. We really appreciate the opportunity to discuss our second quarter results with you, and we look forward to talking with you in a few months to discuss our third quarter results. Hopefully we'll be able to get together in person in the not-too-distant future. So, have a great day and a great weekend, everyone.

Operator
Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.