Transcript of Host Hotels & Resorts Inc
Second Quarter 2021 Earnings Call
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Presentation

OPERATOR: Good morning and welcome to the Host Hotels & Resorts Second Quarter 2021 Earnings Conference Call. Today's call is being recorded.

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

JAIME MARCUS: 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, 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:

Thank you, Jaime, and thanks to everyone for joining us this morning. As the saying goes, ‘the trend is your friend’, and that has certainly been the case for Host and the broader lodging sector since the first quarter. While we are paying close attention to the Delta variant, and the potential impacts to our business, we are very pleased with the performance of our portfolio. We are seeing increased demand across all business segments as market restrictions lift and the lodging recovery gains momentum. TSA passenger throughput trends have accelerated since Memorial Day and are currently about 80% of 2019 levels compared to 60% in April. Leisure demand remains resilient, and group and business transient volumes continue to trend in the right direction.

We significantly outperformed expectations and meaningfully beat consensus estimates on all metrics in the second quarter. Our RevPAR increased 55% over the first quarter. We delivered positive Adjusted EBITDAre of $110 million, pro forma Hotel EBITDA of $126 million, and Adjusted FFO per share of $0.12. Each of these metrics saw meaningful sequential increases over the first quarter.

For the second quarter, pro forma revenues increased 54% over the first quarter while hotel-level operating expenses grew by only 32%. The increase in revenues was driven by stronger-than-anticipated demand, continued expense savings from redefining the operating model, and slower-than-expected hiring in sunbelt markets. These factors led to a 400% increase in pro forma Hotel EBITDA in the second quarter versus the first quarter.

We are continuing to see green shoots across all aspects of our business as the lodging recovery gains momentum. As a result, we are pleased to announce that as of August 1st all of our properties are open and operating with the exception of our latest acquisition, the former Hotel Alessandra, which I’ll discuss in more detail shortly.

In tandem with the operational recovery, we are continuing to increase the expected EBITDA growth profile of our portfolio and improve the quality of our assets by executing on our three strategic objectives, which are to redefine the hotel operating model, gain market share at renovated hotels, and strategically allocate capital.

As it relates to our capital allocation strategy, we closed on two more off-market acquisitions since our last call in May - the Baker’s Cay Resort in Key Largo and the former Hotel Alessandra, a luxury downtown hotel in Houston’s central business district. Along with our previously announced acquisitions, these two hotels bring our 2021 year-to-date acquisitions to $1.1 billion at a 13.8x EBITDA multiple, which is based on 2019 EBITDA or projected normalized operations in the case of Baker’s Cay and the former Hotel Alessandra.

After taking into account these two acquisitions, we have $1.3 billion of total available liquidity, including $139 million of FF&E reserves.

As a reminder, we discussed the acquisition of two hotels and two golf courses on Maui on our first quarter earnings call.

We purchased the 448-room Hyatt Regency Austin for $161 million or $359,000 per key at a 10% cap rate and 8.8x multiple on 2019 NOI and EBITDA, respectively.

We purchased the 444-key Four Seasons Resort Orlando at Walt Disney World Resort for $610 million or $1.4 million per key at a 4.7% cap rate and 16.8x multiple on 2019 NOI and EBITDA, respectively. We expect this iconic and irreplaceable resort to stabilize between 12-14x EBITDA in the 2023-2025 timeframe.

We also acquired the Royal Ka’anapali and Ka’anapali Kai Golf Courses in Maui for $28 million.

All three of these acquisitions are performing meaningfully ahead of our underwriting expectations. As of June, the Hyatt Regency Austin is $4.1 million higher than our full year 2021 EBITDA forecast and the Four Seasons Resort Orlando is $11.7 million higher. Additionally, the golf courses have an expected cash-on-cash return of approximately 11% for the calendar year 2021.

Turning to our most recent acquisitions – First, the Baker's Cay Resort Key Largo, a beachfront property and our first asset in the Florida Keys. We closed on this off-market acquisition on July 1st for $200 million through a long-standing relationship with the seller. The resort was attractively priced at an estimated 6.2% cap rate and 14.5x EBITDA multiple on 2021 forecasts. While the property was closed for much of 2019, as it went through an extensive renovation, this 2021 forecast performance would rank eighth in our 2019 pro forma portfolio on both RevPAR and EBITDA per key. Through opportunities we have identified to organically grow EBITDA at the property, we expect it to stabilize at approximately 13x EBITDA between 2023 and 2025.

The 200-room resort in Hilton's Curio Collection is located on 13 acres of irreplaceable beachfront land on Key Largo's Gulf coast. The resort is in excellent condition after re-opening in 2019 following a complete renovation totaling $63 million, or $315,000 per room.

We are thrilled to have a presence in Key Largo as it benefits from the favorable supply-demand dynamics of the Keys while still being close to mainland Florida. The resort is about an hour's drive from the Miami airport, and it is within a five-hour drive for over 22 million Florida residents. This proximity to the mainland also allows for greater access to labor relative to the Keys that are further south.

The Florida Keys are highly desirable from an owner's perspective given the unique supply and demand dynamics in the market. A Rate of Growth Ordinance ensures that new hotel rooms can only be added if they replace existing, entitled dwelling units, which has led to a 4% supply increase in the Keys from 2000-2019 versus 25% for the US according to STR. That in turn has led to the Keys consistently having leading upper-upscale RevPAR and RevPAR growth as detailed in the Baker's Cay presentation on our website.

Moving onto our most recent acquisition, the former Hotel Alessandra, a luxury downtown hotel in Houston's central business district. We opportunistically acquired this 223-room hotel for $65 million, or $291,000 per room, on July 2nd prior to a scheduled foreclosure auction. Our ability to source and close on this distressed, off-market acquisition is truly a testament to Host's deep industry relationships, strong balance sheet, and ability to close reliably and quickly. Having recently opened in October 2017, this hotel is in excellent condition, and we expect little to no capital to be invested in the near term. At $65 million, we purchased the hotel at for an approximate 30% discount to its $90 million development cost.

The hotel is currently closed and is fully unencumbered by brand and management. We have engaged HEI to operate this hotel with a nationally recognized brand, reservation system, and loyalty program, thereby maximizing its attractiveness to business transient and leisure guests. While this hotel had not reached stabilization in 2019, based on our forecast for normalized operations, which assumes a new manager, brand, and operations in-line with the 2019 operations of comparable Houston properties, the price would represent a 9.6% cap rate and 9.2x EBITDA multiple. Additionally, we have identified a number of opportunities to explore with our new operator, which we believe will increase the EBITDA growth profile of this hotel.

We have deep knowledge of the Houston market given our existing ownership of four hotels in the city. The former Hotel Alessandra is part of the Greenstreet mixed-use development in the center of downtown Houston, which has the second largest concentration of public companies in the US, including 24 Fortune 500 companies. In addition, Houston is the number two US metropolitan area by job growth according to the Bureau of Labor Statistics, and the CBD grew RevPAR by 10% from 2016 to 2019.

In total, we have invested $1.1 billion in early-cycle acquisitions thus far in 2021 at a 13.8x EBITDA multiple. This compares favorably to the $3.5 billion of assets we disposed of at a blended 17x EBITDA multiple between 2018 and 2020. We continue to believe this is an opportune time to improve the quality of our portfolio by investing in markets with high expected growth. Our early cycle investments have historically provided years of elevated EBITDA growth alongside periods of strong economic recovery.

Moving on to operations, we are excited to announce that we have re-opened the three remaining hotels that had previously suspended operations. The Ibis Rio de Janeiro opened on May 10th and the Westin River North opened on May 19th. The Sheraton Boston re-opened on August 1st, well ahead of our expectations, due to an increase in group business demand. With the exception of our newly acquired hotel in Houston, which we expect to open later this year, our portfolio is now fully open and ready to take advantage of the next lodging cycle.

Looking at second quarter operations, the recovery momentum continued to play out, driven once again by robust rates in our resort markets as leisure demand was stronger-than-anticipated after the spring holidays. Portfolio-wide pro forma RevPAR sequentially improved each month, and we ended the second quarter with RevPAR just shy of $100. June RevPAR came in at over $111, representing a 25% increase over March, and preliminary July RevPAR is expected to be in the mid $130 range.

Portfolio hotel-level EBITDA has remained positive each month since March, with 52 hotels delivering positive EBITDA in the second quarter, representing 56% of rooms, an increase from 31 hotels, representing 31% of rooms, achieved in the first quarter of 2021.

We were particularly encouraged that June was the first month that our non-resort portfolio also realized positive hotel EBITDA driven by our properties in San Diego, San Antonio, and New Orleans.

As markets have lifted restrictions, demand has also improved at our urban hotels. Transient room nights in New York, New Orleans, San Francisco, and Chicago grew significantly from the first quarter to the second quarter, with New York up over 200%. Importantly, both room nights and rates have increased steadily each month since March.

Leisure market weekly occupancy ended at 62% the last week in June, a three-percentage point increase over the end of the first quarter. Urban and downtown market weekly occupancy recovery continues to be promising, finishing the quarter at 43%, up 15 percentage points from the beginning of the quarter, with ADR up over 10% quarter-over-quarter.

Turning to business mix, pent-up leisure demand at our resorts has spilled over into the summer months and continues to lead the operational recovery. In the second quarter, both rate and revenue at all of our resorts not only exceeded our first quarter results, but also surpassed 2019 levels. Resort revenue increased approximately $50 million over 2019, driven by 35,000 more room nights sold with a remarkable $95 increase in rate. This is particularly noteworthy as substantial room night increases have historically resulted in rate erosion. In the second quarter, eleven of our resorts had rates more than 25% above the second quarter of 2019.

Transitioning to group demand, our hotels sold nearly 344,000 group room nights in the second quarter, up 29% to first quarter. As a result, group revenue was up 39% over the first quarter which includes an 8% rate improvement. Group demand in the second quarter was mostly concentrated in sunbelt markets, although Boston and Denver were also contributors. We were encouraged to see meaningful month-over-month growth in both corporate and association group business.
Looking forward, we currently have 1.2 million group rooms booked in the second half of the year, which is up approximately 20% since our last earnings call. Of the roughly 200,000 net group room nights booked in the second quarter for the second half of 2021, we are encouraged that over two-thirds of them were booked in Houston, Boston, New York, and Denver.

Net booking activity for 2022 also improved each month in the second quarter, resulting in 213,000 room nights booked. Our managers remain focused on holding future group rates, thus ADR on the books is slightly higher than the same period in 2019. We now have 2.4 million definite group room nights on the books, which represents 50% of 2019 actual group room nights. For comparison, in the second quarter of 2019, definite group room nights on the books for 2020 were 60% of 2019 actuals.

Our group bookings for 2023 are echoing a very similar story. As of the second quarter, our net booking activity for 2023 totals 109,000 rooms, which sequentially increased each month in the quarter. In addition, our average rate on the books is slightly above levels for the same time in 2019.

Finishing with business transient, we remain encouraged by the sequential growth we are seeing in this segment. Special corporate rooms sold in the second quarter were up over 100% compared to the first quarter driven by growth in Denver, Texas, California, New York, and Atlanta. We are also seeing booking activity come back from traditional top accounts, which include a mix of financial, government, and consulting companies. We continue to believe that business transient demand will evolve post Labor Day with school back in session and the return-to-office for many companies. We are pleased to have shown a monthly average growth rate of nearly 30% in business transient room nights, and revenue, since January of this year.

As I wrap up my comments, I would like to reiterate the incremental EBITDA we expect to achieve as we emerge from the pandemic into a new lodging cycle. Our acquisitions year-to-date provide us an estimated proforma 2019 hotel EBITDA base of $1 billion $570 million. While it makes sense to think of 2019 as the base year, the timing of a return to 2019 levels of hotel EBITDA remains highly uncertain, particularly given the unprecedented, pandemic-driven nature of the downturn. The recovery may span several years, and our portfolio is likely to continue to evolve over that time. In addition, we expect $145 million to $220 million of annual incremental EBITDA on a stabilized basis over time coming from three strategic objectives –

First, redefining the operating model with our managers, which is expected to generate $100 to $150 million of potential long-term expense savings based on 2019 revenues. We have taken initial steps toward 50-60% of these savings to date.

Second, gaining an expected 3 to 5 points of weighted RevPAR index growth at the 16 Marriott Transformational Capital Program hotels, as well as five other hotels where major renovations have recently been completed or are underway. As part of the Marriott program, during the second quarter, we completed the Ritz-Carlton Amelia Island, and we will complete the multi-year transformation of the New York Marriott Marquis in two weeks. We expect to complete approximately 85% of the Marriott Transformational Capital Program by year-end. The five other major renovations have expected completion dates through 2023. We expect these repositioning's to generate $21 to $35 million of annual incremental EBITDA on a stabilized basis over time.

And finally, we expect to generate $25 to $35 million of annual incremental EBITDA on a stabilized basis from recently completed and ongoing ROI development projects with expected completion dates by the end of 2022. Renovation and development projects typically take two to three years to stabilize after completion, and as these projects are at different stages of the process, stabilization will occur over several years. During the quarter, we completed the development of a new waterpark at The Ritz-Carlton Golf Resort, Naples and additional villas at the Andaz Maui at Wailea Resort. The 19 two-bedroom luxury villas achieved occupancy of 73% in the first full month of operations at an average rate over $1,600. This compares favorably to our underwriting assumptions of mid-30% occupancy at an average rate of over $1,400 for the full year 2021.

To conclude my remarks, we are very encouraged by the operational recovery we are seeing at our hotels and across the lodging industry as demand accelerates. While we continue to monitor the potential impacts of the Delta variant, we remain optimistic and well-positioned to execute on our long-term goal of increasing the EBITDA growth profile and improving the quality of our portfolio.

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

SOURAV GHOSH, CFO & TREASURER:

Thank you, Jim. Good morning everyone. Building on Jim's comments, I will go into detail on second quarter cash flow, operating expenses, and our view on revenue and expense trends for the back half of 2021.

During the second quarter we generated positive cash flow from operations for the first time since the onset of the pandemic. Starting with Pro forma Hotel EBITDA of $126 million, and backing out $65 million, the majority of which is made up of interest and corporate overhead, we generated $61 million of cash during the quarter. If you take into account our ongoing capital expenditure program, which totaled $87 million for the second quarter, and includes ROI projects, maintenance capex, and the Marriott Transformational Capital Program, our net cash outflow was only $26 million.

In addition, we maintained a strong liquidity position with $1.3 billion of cash, including $139 million of FF&E reserves after adjusting for our two hotel acquisitions in July; and we have no debt maturities until October 2023.

Moving onto expenses, total operating costs in the second quarter rose by only 32% compared to the first quarter despite a 54% increase in total revenues. Beginning in March, we proactively increased rate in our leisure markets given a demand surge and benefitted from outsized out-of-room spend. That said, the slow pace of hiring by our operators caused operating expenses to remain unsustainably low, which we do not expect to continue.

Variable expenses were down 59% relative to a total revenue decline of 54% when compared to the second quarter of 2019. These figures had kept pace with each other through February, but since March, revenues have come back faster than variable expenses. We expect this gap to narrow as we progress through 2021 and hiring increases to levels more in line with demand.

Fixed expenses, including wages and benefits, were 32% lower than the second quarter 2019 and 18% higher than last quarter. Hotel operating costs such as contract services, maintenance, and utility costs were the driver of this modest quarter-over-quarter increase as some traditionally fixed expenses came back with increased business volumes. As it relates to above-property shared service expenses, both Marriott and Hyatt continued to provide cost relief and flexibility for services. Areas of savings in the second quarter include above-property sales and marketing, revenue management, and IT costs.

As a reminder, we introduced the expense reduction ratio several quarters ago to measure the change in property-level expenses against the change in total revenue over a comparable pro forma time period in 2019.

During the second quarter, our expense reduction ratio came in at 0.84, which means that for every 10% decline in hotel revenue compared to pro forma second quarter 2019, there was an 8.4% reduction in expenses. For reference, in the second quarter of 2021, total operating expenses were down 46% versus 2019 on revenues down 54%. This is the second quarter in a row that our expense reduction ratio came in much higher than our anticipated range of 0.65 to 0.70. While this is positive for profitability, this level of expense reduction is not sustainable in the long-run, and it reflects the hiring challenges our operators are facing in certain markets.

Our ratio in the second quarter also reflects better-than-expected ADR, as well as tight expense control by our operators. Had our rate been closer to our forecast and hiring ramped up as expected, we estimate that our second quarter expense reduction ratio would have been 0.72.

As we think about the second half of 2021, we are anticipating an expense reduction ratio in the 0.75 to 0.80 range. This partly reflects a rate decline in the third quarter, driven by a shift in the mix of business as properties ramp-up operations. In addition, expense levels are anticipated to be more normalized as hiring continues ramping up in labor-challenged markets.

Moving to our topline outlook, we are still unable to provide guidance at this time. That said, similar to the second quarter, we expect strong momentum in our topline growth trajectory in the second half of the year as business transient and group volumes increase.

We continue to expect occupancy gains to drive RevPAR increases over the second half of the year. As a reminder, we expect that rate will decline in the third quarter before ticking back up in the fourth quarter, as the extended peak season we have benefitted from in our high-rated leisure markets shifts toward lower-rated markets.

We are still expecting steady increases in business transient and group demand with more pronounced increases beginning after Labor Day in conjunction with the return-to-office for many companies. We expect this to primarily benefit corporate and association group business. Based on a Global Business Travel Association survey in July, 63% of companies plan to resume domestic business travel in the next one to three months, which is up 35 points from the March survey.

We continue to expect leisure travel to drive total RevPAR at our properties, particularly as key demand drivers return to normal operations in urban markets.

Finally, during the quarter we opportunistically issued 7.8 million shares of common stock through our at-the-market program at approximately $18 per share, resulting in total net proceeds of $138 million. We have $460 million of remaining issuance capacity under our ATM program, but we want to emphasize that our $1.3 billion cash balance is sizable, and the trajectory of cash from operations is expected to continue to increase. With that in mind, we will continue to be opportunistic with respect to future issuances.

To conclude, we are very pleased with the progression of the lodging recovery and the milestones we have achieved over the past few quarters. We continue to see increasing demand across all parts of our business at a faster pace than we expected, and we remain optimistic that this lodging recovery will continue to gain momentum through the course of 2021.

Given our strong balance sheet, we remain very well positioned to execute on our goal of increasing the EBITDA growth profile and improving the quality of our portfolio, particularly given the strong recovery that is underway. We continue to make significant progress on redefining the operating model with our managers, increasing market share at renovated assets, and strategically allocating capital.

With that, we would 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: Our first question today is coming from Smedes Rose from Citi.

SMEDES ROSE, CITI: I guess my one question would just be, could you talk a little bit more about the decision to issue shares on your ATM relative, I think, to your own guidance around net asset value and what looks like to be fairly strong liquidity position already going into this?

JIM RISOLEO: Sure, Smedes. Happy to do that. We always are looking at opportunistic ways to raise capital, to redeploy capital into areas that are going to enhance the EBITDA growth profile of the portfolio going forward. As we think about valuation and NAV, which we don't talk about, we've never published it, and we won't talk about it today, our NAV changes at a point in time. It moves based on facts and circumstances and conditions, and we're in a very volatile environment. We thought it was an opportune time to raise some cash, not a lot, given the acquisition pipeline that's out there. We were looking at Baker's Cay at the time and some other deals at the time. So we just felt it was prudent to raise some equity around those acquisitions. And as Sourav made clear, it wasn't a lot of money and we do have ample liquidity on the balance sheet today, and we'll see where the future takes us.

NEIL MALKIN, CAPITAL ONE: My question is about acquisitions kind of what you were talking about a second ago. Can you just talk about what the pipeline looks like in terms of -- are you underwriting more deals than you were 30, 60 days ago? Do you have a specific focus of assets you prefer in the current environment? And just kind of give us a sense for what your capacity is right now under the waivers? I know it changes given your cash flow position. So can you just talk about that, that would be great.

JIM RISOLEO: Sure, Neil. I will tell you, it is a -- really very much a variable pipeline today. Deals come into the pipeline, we evaluate them and make a decision whether or not to pursue something. And it's hard to say really where we were 30, 60 days ago today. Going forward, it can change in a matter of a day. As we think about the types of acquisitions that we're interested in, I think if you look at what we've acquired to date in 2021, $1.1 billion. Two of the assets were -- would really fall into the opportunistic category. As we talked about in February on the call, with an objective of moving beyond the typical markets that we're prepared to invest in, we were really casting a wider net. And a wider net allowed us to do 2 really great opportunistic distressed deals, 1 being the Hyatt Regency in Austin that we bought at roughly a 25% discount to pre-pandemic values and then the Hotel Alessandra, which we just recently closed on at a 30% discount to true development costs. The hotel was just completed construction and opened in 2017.

So of course, we will continue to look for more opportunities along those lines. I think that one of the big stories of the pandemic that has played out is that there hasn't been as much distress out there as everyone thought there was going to be. As you know, there were a lot of funds raised to go buy distressed hospitality assets. And there just hasn't been that much trading in the distressed market. The other piece of it is, we'll continue to look at resorts, complex assets that we feel we can add a lot of value to. I mean if you look at the past performance of some of the properties that we have purchased like the one Hotel South Beach, performance of that asset has been off the charts. From a supply perspective, resorts and big box hotels have a lower supply growth of any asset class in hospitality. So we'll continue to look at those deals as well.

Lastly, I haven't seen it yet, but I expect that we may be seeing assets come to market in some of the urban markets as things continue to open up, and we get back to a sense of more visibility with respect to underwriting. I think you'll see some of those assets trade. And by no means are we writing off the major urban markets. So I would tell you that, generally, we don't have a red line through any market today in the domestic United States, that is. I mean we're not interested in going offshore at this point in time. And it's a wide swathe. We still continue to believe that we are at the beginning of a lodging cycle. We feel that we're at the beginning of an economic cycle. We have some bumps in the road here today, in particular, with some of the earnings reports that were out there and the hiring report, the jobs report that was published this morning, but we feel we have a good run ahead of us. So we're interested in deploying capital smartly and accretively to benefit our shareholders.

BILL CROW, RAYMOND JAMES: Jim, there's a tremendous bid for assets out there and the pricing that we've seen on a per key basis has been off the charts. Is this just a good time for Host to sit back and reevaluate its portfolio and the breadth of quality up and down the portfolio? And I'm just curious about any current or proposed plans to sell maybe a large number of assets in order to narrow that quality focus.

JIM RISOLEO: Bill, the old saying goes, if you can't buy, it's time to sell, right? And we've been fortunate that we've been able to deploy $1.1 billion through roughly the first half of this year. Concurrently with that, we are thinking about disposing of assets that maybe don't fit the long-term profile of our portfolio. Not that there's anything wrong with these assets but there are certain hotels that aren't a Host fit going forward. So of course, we'll test the market. It would be folly if we didn't and we're going to do the prudent thing and we will see if there is a bid out there that we feel make sense for us. We would take the capital that we raised from asset dispositions and redeploy that either into our existing portfolio through additional ROI projects or additional acquisitions that more fit our long-term growth profile and enhance the overall EBITDA growth profile of the portfolio.

ANTHONY POWELL, BARCLAYS: Just a question on the second half. You guys seem pretty confident that you're going to see business transient and group come back, though, there is a worry in the market that say, July, maybe kind of a peak RevPAR for the year, given a lot of leisure travel, holiday, 4th of July and that you could see some bumps in the road in October and November with Delta variants or whatnot. Just maybe going to why you're confident that you think you can continue to get sequential RevPAR increases through the rest of the year, given all the uncertainty?

JIM RISOLEO: Yes. Let me -- I'll start on this, Anthony, and I'll ask Sourav jump in as well. On the group side, let me talk about group and then Sourav can talk about BT. Okay. I'll talk about group. What we said on the call today is that we picked up 200,000 definite group room nights for the second half of the year in the second quarter.

That's a 20% pop over where we were when we spoke with you after the first quarter earnings release. So we now have 1.2 million group room nights on the books for the second quarter, which is 50% of where we were in 2019. So we continue to be encouraged because of the fact that it's a sequential increase in group room night bookings. Over 2/3 of the group room nights that were booked in the second quarter were split out among several markets. So there wasn't any 1 market concentration. Just to give you a little color. Houston, we picked up 53,000 room nights; Boston, 23,000; Phoenix, 19,000; New York; and Denver also had pick-ups in the quarter. So that gives us a lot of encouragement that the groups definitely want to get back out and they want to meet. There is no question about it. Convention centers are reopening in our key markets. And I think the trend on group is very healthy. Sourav -- I'll let Sourav chat a little bit about what we're seeing on the business transient front because that's another segment that obviously -- this is playing out exactly as we all thought it would when we entered the pandemic leisure first -- robust leisure travel, robust leisure demand followed by BT and then group. So we can talk a little bit about BT as well.

SOURAV GHOSH: Anthony, on the BT front, I mean, Jim mentioned in his prepared remarks, how we've seen sequential improvement since the beginning of this year, every single month. And that's actually through the third week of July. It's effectively a 30% increase in BT room nights every month. So when you look at Q2 versus Q1, it was effectively over a 100% increase in BT. And what's actually encouraging on the BT that's on the total portfolio, 1/3 of that increase is being driven by urban markets. So when we see sort of our Q2 numbers, I'll put some numbers around this, our total portfolio we did about 150,000 room nights. And of that, 43,000 room nights is from our urban hotels. As we think about how we progress to -- from Q3 to Q4, second half of the year, obviously, it's still lower than 2019 levels, but we would expect by the time we get to the fourth quarter to get to about 50% to 55% of BT levels relative to '19.

When I'm saying BT, this is specifically special corporate, just to clarify. But to the point on rate, I do want to say that we have -- as we did say earlier that we would see sequential decline in rate, even though you would see sequential improvement in RevPAR and that holds true. I mean you saw that happen in the second quarter. We were down quarter-over-quarter in rates. We would expect that to continue into Q3. And then Q4, we would expect that rate to be more similar to Q2 based on the information we have available today. So while we will see RevPAR improvement sequentially, we will see a rate decline and we expect a rate decline in the third quarter.

CHRIS DARLING, GREEN STREET: Piggybacking off Bill's earlier question, is it safe to say that the international portfolio doesn't fit the longer-term strategy of the company? And if so, could you maybe discuss the level of investor appetite there might be for those hotels?

JIM RISOLEO: Chris, if you look at the international exposure. We have 3 hotels in Brazil. The biggest 1 being the JW Marriott in Rio in Copacabana Beach and then 2 small core properties, which I would consider "international assets." Those are the only true international assets we have. The other 2 are based in Canada. One is a Marriott in Calgary and the other is the Marriott in Toronto at Eaton Center. So I don't paint 1 -- all those assets with 1 brush. I think at some point in time, we will sell the assets in Brazil. Brazil has faced a lot of challenges today. But if you look at it in the context of EBITDA contribution and investment relative to the Host enterprise value, it's really, quite frankly, de minimis.

ARI KLEIN, BMO: Just following up on the business trending question. As far as that recovery is concerned, you're obviously seeing momentum. But how impendent is that recovery on business travel on the return to office. We've obviously seen some companies push out a little bit. Can they be independent of one and another? And has your thinking changed in any way just at that pace of recovery in September, October?

SOURAV GHOSH: Yes, absolutely. I think they certainly can be independent of 1 other. And frankly, we're seeing that right now where a lot of the offices -- they haven't opened yet, but the folks are actually traveling on business already, whether it's BT or attending conferences. So we're certainly seeing that. We are no exception at Host as well. We -- our offices are opening post Labor Day officially, but we have all been already on the road and going out to conferences. And that threw up a lot of the financial services companies out there. So I do think they're sort of not tied to each other. And then certainly, we expect that BT momentum to continue. The other thing I'll point out is a lot of companies on a lot of the large accounts, they don't need the high-level approval anymore from their department head or their CEO in some cases to travel. That has been lifted. So travel has become much easier for a lot of these -- the top accounts, and we are certainly seeing that in the numbers as well. And a lot of these have not actually opened up their offices.

RICHARD HIGHTOWER, EVERCORE ISI: We've covered a lot of ground already. But I want to circle back to the ATM issuance question and the question around NAV. And I'm not obviously looking for Host's estimate of its NAV, but more of a question on methodology and how you think about cost of equity in an environment where stock prices are volatile. EBITDA and NOI are obviously not anywhere near back to a stabilized level. So how should we think about it? I mean, is it a function of street NAVs? Is it a function of a longer-term IRR analysis internally? Is it a private market assessment of what every asset in the portfolio would trade for? How do we think about methodology given the moving parts right now?

SOURAV GHOSH: We look at multiple metrics, frankly, when we are looking at NAV. It's not isolated, whether it's the CAPM model or an IRR. And as you can appreciate right now, as Jim pointed out, when you're in a volatile environment, it really depends on what we think the forecast looks like, not only for the balance of the year, but really from a long-term perspective. We take a long-term view when determining what our cost of equity would be, particularly in a volatile environment when it's very difficult to pinpoint NAV.

DAVID KATZ, JEFFERIES: I just wanted to go back to the labor issue, which I know you commented on a little bit and make sure that what I'm hearing is the notion that labor does become increasingly expensive. And is the strategy to match ramping up labor with demand, or is there some mechanisms for trying to mitigate some of the higher costs that I think have been kind of broadly discussed and recognized? What are the strategies around that?

JIM RISOLEO: Yes. The issue around labor is it really varies market by market. We have seen the greatest level of staffing challenges in the markets where demand quickly returned such as South Florida, Atlanta, Texas and Phoenix. And we are in constant dialogue with our operators on the hiring process. And they are really keen on dedicating the resources that are necessary to ramp up hiring. We're seeing a slight increase in applicant flow over the last 4 weeks or so, 4 or 5 weeks. And we pinpoint that to we believe that, that is due to the fact that the Supplemental Unemployment Benefits are -- have run out or will be running out in about 25 states.

And come September 6, the Supplemental Unemployment Benefit expires across the nation. So hourly labor is tougher to find in the Sunbelt. But the management labor is the challenge in the more northern markets right now. So as we think about it, we're not really overly concerned about wage inflation. Sourav can share some numbers on where we are with respect to $15 wage across our portfolio. This is something we looked at. This is something we think about. And as you can see from what we've been able to accomplish to date, we have a keen focus on expense control and cost control. So I'll turn it over to Sourav to talk a little bit about the wage scale in our hotels.

SOURAV GHOSH: Yes. For our entire portfolio, as it stands right now, over 80% of our portfolio is paying its hourly employees $15 or greater. And I would say it's about -- it's less than 9% of our portfolio that's paying $14 or less. So a very small portion of our portfolio is actually below $14.

ROBIN FARLEY, UBS: Great. I know you've talked a bit already about how you think about asset value. But just kind of circling back to that kind of $2 billion budget for acquisitions. You've done some capital market activity to negotiate that and you're, I guess, $1.1 billion into that. Do you anticipate needing to make changes or do some other capital markets activity to be able to go above that $2 billion?

JIM RISOLEO: I think there are a couple of pieces to your question, Robin. Number one is we have the ability under our existing credit waiver agreement to acquire $2 billion of assets subject to our maintaining $600 million of liquidity in the company. That's point number one. The second piece of it is that we do have some flexibility on asset sales to take that capital and redeploy it into other acquisitions going forward. I think Sourav can correct me here because it's been a while since we talked about the waiver.

But if it's like kind exchanges, we have a lot of flexibility to do that going forward. And then we have another bucket that just allows us to recycle capital. So we have a lot of flexibility under the existing credit waiver agreement to continue to acquire assets. And if we saw ourselves in a position where there were really truly attractive acquisition opportunities out there, and we needed to get more flexibility given our long-standing relationship with our bank group, we would have no problem going back and having a chat with them and getting an amendment to the existing waiver that's in place today.

OPERATOR: Our final question today is coming from Michael Bellisario from Baird.

MICHAEL BELLISARIO, ROBERT W. BAIRD: This is kind of a follow-up on that last question for Sourav. But maybe kind of along those same lines, what's your latest thought on opting out of the covenant relief period early? And then maybe when do you think you might be in compliance with your bond covenants so that you would be able to take on incremental debt at some point?

SOURAV GHOSH: Yes. I mean if you recall, we were first expecting that we wouldn't breakeven until the second half of this year. We'll obviously broken even much earlier than that. So the expectation, assuming the trajectory of the recovery remains same and we see the positive trend that we have seen thus far for the first half of the year. We would certainly be able to get out of the waiver sooner rather than later. That's only the expectation. Obviously, we're not providing guidance. There's still uncertainty. But if the trajectory goes the way it is, we should be able to get out a bit sooner.

OPERATOR: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Jim for any further or closing comments.

JIM RISOLEO: I'd like to thank everyone for joining us on our call today. We always appreciate the opportunity to discuss our quarterly results with you. I look forward to seeing everybody at NAREIT in November. And as we get back on the road, I look forward to getting some non-deal roadshows on the books, in-person meetings as the economy and the lodging industry continues to open up. So enjoy the rest of the summer, be well and stay healthy, and thank you for your continued support.