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HST.OQ - Q4 2021 Host Hotels & Resorts Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 17, 2022 / 4:00PM GMT

OVERVIEW:

Co. reported 4Q21 adjusted FFO per share of $0.29.

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PRESENTATION

Operator

Good morning, and welcome to the Host Hotels & Resorts Fourth Quarter 2021 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the call over to Jaime Marcus. Senior Vice President of Investor Relations.

Jaime N. Marcus - *Host Hotels & Resorts, Inc. - SVP of IR*

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 reconciliation to the most directly comparable GAAP information in yesterday's earnings press release and our 8-K filed with the SEC and in the supplemental financial information on our website at hosthotels.com.

With me on today's call will be Jim Risoleo, President and Chief Executive Officer; and Sourav Ghosh, Executive Vice President and Chief Financial Officer.

With that, I would like to turn the call over to Jim.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Thank you, Jaime, and thanks to everyone for joining us this morning. Despite the uncertainty of COVID-19 variants, we significantly outperformed expectations during the fourth quarter and substantially beat consensus metrics for the year. We delivered Adjusted EBITDAre of $242 million, which exceeded our interest and capital expenditures by $68 million, and achieved Adjusted FFO per share of $0.29 during the quarter.

In addition to delivering positive metrics each quarter, we achieved meaningful sequential increases each quarter throughout 2021. Pro forma total revenues in the fourth quarter grew 20% compared to the third quarter while pro forma hotel level operating expenses increased only 15%. RevPAR for the fourth quarter was $148 as volume and rates continued to hold up at our hotels in Sunbelt markets.

This is the highest quarterly RevPAR we have seen since the onset of the pandemic and closes out a year of strong sequential improvements. RevPAR improved 13% compared to the third quarter despite some softening of demand in late December due to the Omicron variant. Our recent acquisitions, which I will touch on shortly, all contributed to our outperformance during the fourth quarter and are exceeding our underwriting expectations.

Preliminary January RevPAR is expected to be approximately $105, a 130% increase over January 2021. Our preliminary February RevPAR forecast is expected to be $150 to $155, and we expect a significant pickup across business segments in March, which is consistent with the recovery we experienced following the Delta variant.

In addition to delivering significant operational improvements, we continued to be recognized as a global leader in corporate responsibility. Our 2025 emissions target is verified by the Science Based Targets initiative at the 1.5 degree Celsius ambition level, making Host the first hospitality company and among the first 3 real estate companies in North America to set emissions reduction targets in line with the Paris Agreement's highest level of ambition.

To complement our environmental targets, we were the first lodging REIT to issue social targets, including 2 diversity related targets and 1 employee engagement target.

We also continued to execute on our 3 strategic objectives, all of which are aimed at elevating the EBITDA growth profile of our portfolio. As a reminder, our objectives include redefining the hotel operating model with our operators, gaining market share at renovated hotels and strategically allocating capital.

As it relates to the last strategic objective, during the fourth quarter, we acquired 2 hotels and sold 6 hotels. Subsequent to quarter end, we sold 1 additional hotel. This brings our total early-cycle acquisitions to $1.6 billion at a blended 13.0x EBITDA multiple, and our dispositions to approximately $1 billion at a 15.4x EBITDA multiple, including estimated foregone capital expenditures of $290 million. This is a continuation of our strategy to deploy capital into assets that we believe will elevate the EBITDA growth profile of our portfolio.

As a refresher, our 2021 acquisitions included the Hyatt Regency Austin, Four Seasons Orlando at Walt Disney World, Baker's Cay Resort in Key Largo, The Laura Hotel in Houston, Alila Ventana Big Sur, The Alida, Savannah and Hotel Van Zandt in Austin. We also acquired the Royal Ka'anapali, and Ka'anapali Kai golf courses in Maui.

All of our recent acquisitions are performing substantially ahead of our underwriting expectations. For the full year 2021, EBITDA at our new acquisitions was $37 million higher than the full year 2021 EBITDA that was estimated at underwriting, which represents a 73% increase, and the golf courses were $4 million higher.

Turning to our fourth quarter acquisitions. In December, we closed on The Alida, Savannah, a 173-key boutique hotel for approximately $103 million. This newly constructed hotel opened in October 2018 and benefits from soft branding in Marriott's Tribute Portfolio.

With no expected near-term CapEx, favorable operating costs and multiple demand drivers stabilization for the Alida is expected in the 2024 to 2025 time frame at approximately 11 to 12x EBITDA. In addition, in December, we acquired our second hotel in Austin, the Hotel Van Zandt, a 319-key luxury lifestyle hotel for approximately $246 million, including its $4 million FF&E reserve. The acquisition price represents a 13.2x multiple

on 2019 EBITDA. We funded the acquisition with approximately $140 million in proceeds from recent dispositions and assumed approximately $102 million of existing secured debt.

Located adjacent to Austin's popular Rainey Street entertainment district, this recently constructed hotel opened in 2015 and is poised to benefit from continued large-scale development. We expect the hotel to stabilize at approximately 10- 12x EBITDA in the 2025- 2027 timeframe.

On the dispositions front, we sold the 305 key W Hollywood in December for $197 million or 25.0x 2019 EBITDA. When calculating the EBITDA multiple, we included $33 million of estimated foregone CapEx over the next 5 years. This is the third ground lease asset we sold in 2021.

In addition, subsequent to quarter end, we sold the 1,220 key Sheraton Boston for $233 million or 14.2x 2019 EBITDA. When calculating the EBITDA multiple, we included $135 million of estimated foregone CapEx over the next 5 years. In connection with the sale, we are providing a $163 million bridge loan to the purchaser, which we expect will be repaid within its first six-month term.

Looking back on our transaction activity since 2018, we have acquired $3.2 billion of assets at a 14x EBITDA multiple and disposed of $4.5 billion of assets at a 17x EBITDA multiple, including $793 million of foregone CapEx over the next 5 years. With these transactions, we have dramatically improved the quality of our portfolio. Comparing proforma 2019 results for our current portfolio to 2017, we have increased the RevPAR of our assets by 11%, the EBITDA per key by 20%, and the EBITDA margins by 120 basis points. As we continue to evaluate capital allocation opportunities going forward, our efforts will remain focused on assets that further bolster our EBITDA growth profile.

As part of our capital allocation efforts, in January, we acquired a 49% interest in the asset management platform of Noble Investment Group to cultivate innovative hospitality opportunities within Noble's private fund platform. We invested $90.7 million in its fee-based asset management business, comprising $35 million of cash and $55.7 million of equity or 3 million operating partnership units, which are subject to a 1-year lockup period. In the future, we also have the ability to acquire an additional 26% to 51% [interest] (added by company after the call) in Noble, which would bring our aggregate interest to between 75% and 100%. In addition, we have made a $150 million LP commitment to the next Noble fund. Based on our current ownership interest, we are targeting average net expected earnings of $7 million to $10 million annually over the next 3 years.

Over the past 3 decades, Noble has invested nearly $5 billion in acquiring and developing approximately 150 assets and the branded upscale select service and extended-stay segments across 84 markets in the U.S. Founded in 1993 by Mit Shah, who remains the CEO, the Noble team has a multi-cycle track record and extensive experience sourcing investment opportunities in real estate and capital markets.

Our investment represents yet another opportunity to elevate the EBITDA growth profile of our portfolio by creating a new income source from recurring management and development fees and allowing for investment in select service hotels, extended-stay hotels and new development opportunities.

The partnership will combine Noble's strong track record, development acumen in the select service and extended-stay categories and fund management experience with our scale, market insights and data analytics to source differentiated investment opportunities. By capitalizing on Noble's deep expertise, we will have the ability to incubate and invest in future lodging adjacent strategies, thereby creating additional paths for long-term strategic value creation. Those strategies include property technology solutions, development and alternative lodging. We believe a fund vehicle is one of the best ways to gain chain scale diversification, as Noble's expertise with select service and extended-stay hotels will preserve our focus on investing in upper upscale and luxury hotels and resorts.

Moving onto fourth quarter operations, we continued to close the gap to 2019. Transient demand in the fourth quarter was 82% of 2019 levels compared to 77% in the third quarter and 58% in the first half of 2021, and we are encouraged that transient rate in each of the 4 quarters in 2021 exceeded rates in 2019.

Our hotels also saw continued improvement in group during the fourth quarter compared to the third quarter, driven by demand growth of 15% and a 17% rate improvement. Also bolstering our group results was the continued meaningful improvement in banquets. Banquet and AV revenue was $150 million in the fourth quarter, up 84% over the third quarter after having doubled from the second quarter to the third quarter.

Sourav will get into more detail on business mix in the fourth quarter shortly. In addition to successfully deploying capital this year, we continued to focus on our 3 strategic objectives. As a reminder, we are targeting a potential $267 million to $342 million of incremental stabilized EBITDA on an annual basis from the initiatives and projects underlying our strategic objectives.

Approximately $120 million is expected to come from the 7 acquisitions we completed in 2021.

The $100 million to $150 million is expected to come from potential long-term cost savings over time based on 2019 revenues from redefining our operating model with our managers. We have taken steps towards 50% to 60% of these savings to date.

Another $22 million to $37 million of incremental stabilized EBITDA and is related to our goal of gaining 3 to 5 points of weighted index growth at the 16 Marriott Transformational Capital Program hotels and 8 other hotels where major renovations have been recently completed or are underway.

In 2021, we completed 3 Marriott Transformational Capital Program properties, and subsequent to quarter end, we completed 2 more, bringing the number of completed properties in this program to 12 out of 16. In August, we completed the final phase of construction at the New York Marriott Marquis. And in October, we completed the final phase at the Orlando World Center Marriott closing out both of these 3-year transformational renovation programs. Other properties completed over the past year include the Houston Marriott Medical Center, the Marina Del Rey Marriott and the Ritz-Carlton, Amelia Island. We completed approximately 85% of the program as of year-end, and we expect to substantially complete it by the end of 2022. The remaining Marriott Transformational Capital Program properties include Boston Copley, the San Diego Marriott Marquis, Marriott at Metro Center and the JW Marriott in Houston.

We expect to receive approximately $11 million in operating profit guarantees under the Marriott Transformational Capital Program in 2022.

Additionally, this year, we added 3 hotels to our list of major renovations. The Westin Denver Downtown, Miami Marriott Biscayne Bay and the Westin Georgetown in Washington, D.C.

Finally, the remaining $25 million to $35 million of incremental stabilized EBITDA over time on an annual basis is expected to come from recently completed and ongoing ROI development projects. These projects are at different stages of renovation and development and stabilization is expected to occur 2 to 3 years after completion. To date, our ROI development projects at the Andaz Maui Villas and the 1 Hotel Beach Club, have produced returns significantly greater than our original underwriting.

Our 2022 capital expenditure guidance range is $500 million to $600 million, which reflects our continued focus on reinvesting in our properties during the early phase of the recovery to position our portfolio for future demand. The plan includes $245 million for redevelopment and repositioning projects such as the completion of the Ritz-Carlton Naples Beach transformation and tower expansion, a transformational renovation of the Fairmont Kea Lani, and completion of the Orlando World Center waterpark and meeting space expansion. It is worth noting that our capital expenditure range at the midpoint is $125 million higher than last year, which is driven by increased investment in ROI development projects as well as more normalized maintenance CapEx spend.

To conclude my remarks, we made significant strides towards improving the quality of our portfolio in 2021. Despite the recent volatility, we remain encouraged by the recovery we are seeing across the lodging industry. Our capital allocation efforts over the past few years, combined with the geographic diversity of our portfolio and our strong balance sheet, leave us very well positioned to create significant long-term value for our stockholders.

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

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Thank you, Jim, and good morning, everyone. Following Jim's comments, I will go into detail on our fourth quarter topline performance, margins, our thoughts for 2022 and provide an update on our balance sheet and dividend.

Despite headwinds from 2 COVID variants, we continued to benefit from quarterly sequential improvements with 70 hotels achieving positive hotel EBITDA for the entire quarter compared to 61 hotels last quarter. Notably, our 3 New York City hotels, 2 Downtown Boston hotels and the San Francisco Marriott Marquis all achieved positive EBITDA in the fourth quarter.

Moving on to topline performance, fourth quarter RevPAR was the highest it has been since the onset of the pandemic. In addition, December had its highest monthly ADR in Host's history, which is indicative of the quality of our assets and the pricing power of this recovery. While these improvements have been driven by leisure, travel in Sunbelt markets and Hawaii, which saw fourth quarter RevPAR up 15% to $198 over the third quarter, our urban markets continued to deliver sequential operational improvements. During the fourth quarter, our urban markets grew by 13% to a RevPAR of $108, once again representing the best quarter of the recovery for these hotels.

Turning to business segments, during the fourth quarter, transient revenue improved 7% over the third quarter, driven by a 9% rate increase.

Transient revenue at sunbelt and Hawaiian hotels was up 8% sequentially, driven by a 12% improvement in rate, and once again exceeded prior peak levels.

Drilling down to resorts, our properties grew transient revenue 30% over the fourth quarter of 2019, driven by a 35% increase in rate. Compared to the fourth quarter of 2019, Alila Ventana Big Sur, one of our recent acquisitions grew revenue by over 130%, which was driven by a rate increase of 98%. For context, that rate equates to more than a $1,000 increase. All 16 of our resorts had rates 20% higher than the fourth quarter of 2019.

Transient rate in our urban and downtown markets was up 7% over the third quarter, with demand also up 1%, which was driven by our hotels in New York and DC.

Even with Omicron concerns dominating headlines, business transient demand improved by 5% over the third quarter with rate up 20%. This was driven by significant growth in October which had the highest amount of business travel room nights of any month since the onset of the pandemic.

Nearly half of our business transient rooms sold in the fourth quarter were in urban and downtown markets where demand was up 16% and rate was up 10% over the third quarter.

Wrapping up on business transient with more encouraging news, we continued to see a return to traditional business travel. In the fourth quarter, our operators, traditional top 10 accounts made up 70% of business transient rooms, which is up from 40% in the third quarter. These accounts are all household names representing a mix of financial services, government contracting and consulting companies.

Turning to group, this segment continued its upward trajectory. We were encouraged by net booking activity in the quarter for the quarter, resulting in 660,000 group rooms sold for the fourth quarter. This level of demand represents 60% of 2019 levels and is up from 52% in the third quarter, putting us at 1.2 million group room nights in the second half of 2021.

Group revenue increased 35% over the third quarter, driven by 15% demand growth, combined with a 17% improvement in rate. Most of the room night increase came from Boston, Phoenix, San Diego and San Francisco.

Corporate group room nights increased 11% over the third quarter with a 23% increase in rate. San Antonio and Phoenix drove most of the demand growth in this subsegment. In the fourth quarter, corporate group room nights were 55% of 2019 compared to 29% for the first half of 2021. Association groups also showed steady sequential improvements. Fourth quarter association group room nights increased 19% over the third quarter with a 15% increase in rate, largely driven by our hotels in San Diego. Association group room nights were 45% of 2019 in the fourth quarter compared to only 11% for the first half of 2021.

Looking forward to our expectations for group in 2022, we currently have 2.8 million definite group room nights on the books, which compares favorably to the 2.5 million group room nights we would have had on the books as of the third quarter after adjusting for our recent acquisitions and dispositions. Group rate in 2022 remains up 1% to 2019, and group demand is currently front-loaded, with roughly 60% of definite group rooms booked in the first half of the year.

Last quarter, we provided a comparison to 2019 group room nights, at that time, our definite group room nights on the books represented 54% of 2019 actuals. Adjusted for our transactions and including bookings from the fourth quarter, 2022 definite group room nights now stand at 60% of 2019 actuals, and total group revenue pace is down just 20% to 2019, which is an additional testament to the quality of our portfolio and the strength of the lodging recovery.

Moving onto expenses, pro forma total hotel operating costs rose by 15% during the fourth quarter compared to the third quarter despite a 20% increase in total revenues.

Variable expenses were down 30% relative to a total revenue decline of 25% when compared to the fourth quarter of 2019. Through February of last year, variable expense declines were roughly in line with revenue expense declines, but this trend diverged as hotels struggled to staff up at the pace of demand growth. Our managers' hiring efforts were successful in the fourth quarter and the differential between our variable expense decline and revenue decline narrowed compared to the third quarter.

Fixed expenses, including wages and benefits were 19% lower than the fourth quarter of 2019 and 9% higher than last quarter. We continued to see savings from reductions in above-property services, which were still down substantially to 2019. As expected, on-property sales efforts are ramping up which offset some of the expense savings in the quarter.

Our hotel EBITDA margin in the fourth quarter was 26.9%, which is just about 80 basis points below that of the fourth quarter 2019. When you consider that our revenue is still 25% below its fourth quarter 2019 level, our margins are quite impressive. Given increased levels of staffing and fixed costs that were reintroduced in the second half of 2021, fourth quarter margin strength was primarily a result of higher resort rates better-than-anticipated food and beverage revenue and elevated cancellation revenues.

Turning to our outlook for 2022, we are still unable to provide operational guidance given the continued volatility surrounding COVID. That said, we expect sequential quarterly RevPAR improvements driven by demand growth across our portfolio and continued rate strength at our resorts.

We also expect group and business transient to continue improving in our urban and downtown markets as impacts from future COVID variants lessen, companies return to the office and traditional groups get back to meeting in-person.

As a reminder, Easter is much later this year so some of the pickup we would normally get at the end of the first quarter could bleed into the second quarter.

Although we are not able to provide operational guidance, we would like to provide expected ranges for our corporate G&A and interest expense. For the full year, we anticipate corporate G&A to be in the $103 million to $106 million range, and we anticipate our interest expense to be in the $146 million to $149 million range. From a timing perspective, we expect these expenses to be relatively evenly spread over each quarter in 2022.

Turning to our balance sheet and liquidity position, as we discussed last quarter, we were able to exit our credit facility covenant waiver period 3 quarters ahead of its expiration, and we achieved compliance with our bond indenture debt incurrence covenant. As a result, we were able to refinance a portion of our existing bonds with $450 million of new Series J green bonds at a 2.9% coupon, the lowest in the company's history. We also extended our weighted average maturity from 4.2 to 5.1 years, lowered our weighted average interest rate to 3.1%, and pushed our next maturity out to early 2024.

In addition, during the fourth quarter and subsequent to quarter end, we paid down our outstanding revolver in full. Together, these actions will save us an estimated $5 million per quarter in interest expense. Pro forma for the revolver paydowns and the sale of the Sheraton Boston earlier this month, we now have $1.8 billion in total available liquidity, comprised of approximately $200 million of cash, $144 million of FF&E reserves and full availability of our $1.5 billion credit facility.

Wrapping up, I am pleased to share that the Board of Directors authorized a first quarter dividend of $0.03 per share on Host's common stock. All future dividends are subject to approval by the company's Board of Directors, but as the operational recovery continues, we expect to be able to grow our dividend to a sustainable level.

To conclude, we are extremely proud of our achievements over the past year. 2021 showed that a sustained recovery is underway, and we are optimistic that 2022 will continue to build on the strong momentum of the past few quarters. We remain very well positioned to execute on our goal of increasing the EBITDA growth profile and improving the quality of our portfolio.

With that, we would be happy to take your questions. To ensure we have time to address as many questions as possible, please limit yourself to one question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question for today is coming from Smedes Rose.

Smedes Rose - *Citigroup Inc., Research Division - Director & Senior Analyst*

It's Smedes with Citi. I was just wondering, Jim and Sourav, if you could just talk a little bit about the staffing levels you've achieved in your hotels. It sounds like demand is coming back faster than expected. And kind of where are you on being able to restaff. And maybe Sourav, your thoughts on just kind of what the pace of kind of wage and benefit increases should be over the course of '22?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Sure, Smedes. I'll take the first part of it. Sourav can take the second part of it. We added about 1,000 positions in the fourth quarter. And as you may recall, and on the Q3 call, we stated that the staffing levels were 94% of our managers is our goal. Typically, they run at about 97%. They never get to parity. They're never 100%. With the increase in business volume in the fourth quarter, even though we added 1,000 positions, we still remain at about 94%. But I can tell you, based on conversations we've had with our managers, there is a degree of confidence that the open positions are going to be able to be filled as things open up, as the variant gets behind us, as children get back to school in-person across the country and as the various forms of stimulus burn off, which many of them already have.

So with that, I'll let Sourav talk about our point of view around wage increases and inflation.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

For 2022, we are expecting year-over-year increased wage rates of somewhere around 4% to 4.5%. And this is in line with sort of what we had spoken about in terms of the '19 to '22 CAGR, you might recall, which we said would be somewhere around 5% to 7% in aggregate for our portfolio.

Operator

Your next question is coming from Bill Crow.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Raymond James. I do have a follow-up for you, Jim, but let me start with Sourav. And just thinking about the transition from '21 to '22 and a couple of line items. If you could just quantify the total support that you got from Marriott, whether it's the Transformational Capital Program or other performance guarantees in 2021 and what your expectations are for that in 2022. I think, Jim, you mentioned $11 million on the transformational side. And then the second part of that, Sourav, is the -- I think you've talked about $40 million of cancellation and attrition fees in the second half of 2021. And how much of a drag is that on margins as you try and replace that with actual business?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Sure. So to answer the first part of your question, yes, for 2022, the amount that we are getting from Marriott in terms of the operational profit guarantee that is $11 million. That compares to about $14 million that we got for -- in 2021. As it relates to the attrition cancellation revenue, to put it into perspective, we did approximately $20 million of attrition cancellation revenue. We collected that in the fourth quarter. And when you compare that to 2019, it's only $5 million above that. Actually, when you look at the full year in terms of attrition and cancellation revenue, it is very similar to what we collected in '19, which is about sort of $55 million or so.

What's different is the way we got there. The mix of the attrition cancellation revenue that we collected is different. As business starts coming back, we expect, obviously, the group cancellation revenues to reduce. However, there should be a pickup in transient cancellation revenue. So from an overall cancellation revenue mix perspective that we expect to change as we normalize throughout this year. But when you look at sort of just comparing '19 to '21 total cancellation revenues, they're actually pretty similar in terms of total that was collected.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

All right. That's helpful. And Jim, I said I was going to have a follow-up. I'm going to play devil's advocate for a second. You suggested that the Noble investment was an efficient way to gain diversification across more change scales. So I think it was paraphrasing obviously. But is that something that investors have asked for from Host because you've done a really good job of just kind of concentrating on these wonderful top 40 or maybe it's top 50 assets now? And I'm just wondering what drove you to think about that diversification.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Sure, Bill. Happy to answer the question. It's not something we've had heard from investors, quite frankly. But as we think from a strategy perspective and playing the long game here, how can we transform the income stream of the company to make it more sustainable going forward. And one of the things that has always been of interest to us is the fund management business. So we talked a lot about strategy among the senior team and with our Board about really 3 things that Noble checks the box for us on. Fund management, how do we play in select service without it becoming a distraction and without it really, if you will, muddying up our story. And we have a lot of expertise on the development side as well. We have a really solid design and construction group. I think the best-in-class far and away with some of the projects that -- and you've seen in some of the projects that we've completed.

So as we sat back and thought about those 3 objectives, the best way to accomplish that is through an off-balance sheet vehicle and Noble we think is also best-in-class. So investing in the Noble platform gives us the ability over time to grow a sustainable fee stream that is not subject to the cyclicality of the lodging industry. It's commitment fees, it's asset management fees, it's development fees. It gives us an opportunity to further deploy capital into the select service space without, again, it becoming a distraction for the management team at Host. Mit Shah and his team have been in business since 1993. And they've invested over $5 billion, and they have a very strong track record. So again, select serve, the way they have done it is a very attractive investment from our perspective. And we've made a $150 million commitment to his next fund.

And lastly, having the ability to participate in development projects in an off-balance sheet structure is also something that is very attractive to us. That's not something we ever wanted to do on our balance sheet, it's not conducive to the REIT model. So it's just another opportunity to elevate the EBITDA growth profile of the company in a way that it's not going to be a distraction but is going to bring 2 very, very successful, best-in-class organizations together.

Operator

Your next question is coming from Floris Van Dijkum.

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

It's Floris at Compass Point. Question, Jim, and maybe if you can touch on this, and I guess it's more regarding the valuation of hotels. And I saw, number one, you've sold 3 ground leases. You've got some more ground leases. I don't think you're going to sell any of the San Diego ground leased hotels. But maybe if you can -- which other hotels might be on the block. And also talk about -- maybe if you can touch on -- I noticed the 1 Hotel had $68 million of hotel EBITDA this past year. How does that compare to pre-COVID levels? And how sustainable -- the one fear that we hear from some investors is, well, these resort hotels are -- have really strong EBITDA today, but could that fall off? How sustainable is the EBITDA from your top resort hotels and maybe talk about -- a little bit about the growth prospects for those assets.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Of course, there's an awful lot in that one question. So let me see if I can take it apart for you a little bit. I'll start with the -- your question regarding what other hotels might be on the block. And how we're thinking about ground leases. We sold 3 ground lease hotels. Probably not -- we're not going to sell the Manchester Grand Hyatt or the San Diego Marina Marriott. I'll just say that anytime we think about an acquisition or a disposition, overshadowing that conversation is, will it elevate the EBITDA growth profile of the portfolio? And that really is our baseline as we sit down and look at, okay, is this asset going to grow below, at average, or above the rest of the portfolio at Host?

So that is a gating issue for us. And there are -- not all ground leases are created equal. The ground leases associated with the San Diego properties or with the Port of San Diego, they have, I think, a 65-year maximum term. But every time you invest capital in your assets, you're able to extend the ground lease up to that 65-year term limits. So not so with others that are in private hands. And if it makes sense for us to dispose of assets that have ground leases that we'll certainly do that and replace those, recycle that capital either into additional acquisitions or into additional ROI projects as we're undertaking this year and as we have been undertaking, again, just to elevate the EBITDA growth profile of the company.

With respect to the 1 Hotel in particular, I actually went through the supplemental myself yesterday. And when I saw that $68 million number, I had to do the math, because that's 8.8x EBITDA on our purchase price. And when we underwrote that deal, we were at 13x EBITDA. And in the first year, I think we came in at around 12.5x. So yes, the asset has performed extremely well. We couldn't be happier. We believe that the strong leisure demand that we've seen during COVID is certainly sustainable for all of 2022. There may be some moderating and tempering of the rates that we can charge at some of our resort properties in '23 and '24 as international markets open and as American citizens want to travel abroad again. But don't forget, when that happens, international citizens are going to be coming to the U.S. in a market like Miami, in particular, is a gateway leisure market for international travel.

So we're optimistic going forward. The other interesting data point with respect to our 16 resorts is that they are up more than 20% in ADR over 2019. So we've had extremely strong performance. We've had no pushback from consumers. The properties are all in terrific shape. If they need to have capital invested in them, we will certainly invest the capital so that we could continue to drive outsized rates.

Operator

Your next question is coming from Neil Malkin.

Neil Lawrence Malkin - *Capital One Securities, Inc., Research Division - Analyst*

It's Neil Malkin, Capital One Securities. I was hoping you could talk about the kind of operating model. That was one of the things that you said are, or is one of the 3 facets that you're working on to improve the company and grow EBITDA, et cetera. And I believe yesterday, Hilton talked about, I think, 400 to 600 basis points in terms of the model or the margins. And I was just hoping maybe you could give some insight as we've gotten a little bit further past COVID and you've kind of hammered out more of the brand standard enhancements. Does that $100 million to $150 million number, or whatever that equates to in basis points, does that seem low now? And do you think given the things you've seen with staffing and efficiencies and ADRs and things like that, that may wind up being low and that sort of the previously disseminated margin improvements are going to wind up being light of what's actually going to happen?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Neil, it's Sourav. So I think the way to think about it in terms of the margin expansion, it really will be driven by how quickly we get back to 2019 levels of revenue, right? So the $100 million to $150 million, we are still very, very confident we can deliver that in incremental EBITDA based on 2019 numbers. It all depends on when we get back to the revenue. And frankly, if we get back via rate first, which it looks like we will obviously, you benefit more on the margin front as a result of that. So yes, there is definitely a possibility that you end up getting more of a margin expansion as a result of coming back to '19 levels via rate.

As it relates to where we stand on our initiatives, we talked about it in sort of 3 big buckets. One is the reduction of management staffing at all our hotels, and it was very hotel specifics, went through every single hotel and sort of zero-based budget and figured out what the ideal staffing level is at a normalized level. And I'm happy to report that we had said about 25% to 30% of management staffing would be reduced permanently. And that is -- has been the case, and that's baked into our 2022 budgets.

The second big bucket was reduction in above-property charges, which if you listen to the Marriott call, that has also resulted in savings and will continue to result in savings. That's also baked in. The last bucket was sort of twofold. One, as you said, is the modification or elimination of certain brand standards and then also leveraging technology to drive improved productivity. I will say, of the $100 million to $150 million, 60% we have already initiated. And we are well underway to initiate the balance 40%, which is really the third bucket of brand standards and technology implementation.

On the brand standard piece, there are a lot of changes that have already taken place, whether that's removal of compendiums or it's making alarm clocks optional or relaxation of robes and slippers standards at the premium brands including flexibility of operating hours for the club lounge, minimum hours, not only for the club lounge, but also 3-meal restaurant as well as a relaxation of whether you need 3-meal restaurant at non-resort hotels.

So we made significant progress on the brand standard front. I think the piece which we are still testing right now is housekeeping. And we will have an answer on that sometime middle of this year, but certainly not going back to where we were in 2019. It's really about providing more optionality and flexibility to the guests. But still making sure there is that guest satisfaction level that's needed for the respective brands. So hopefully, that gives you some color.

Operator

Your next question is coming from Jay Kornreich.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

It's Jay Kornreich with SMBC Nikko. With the return of office inflection point likely now underway, which we expect to lead to a strong recovery in BT demand and you indicated seeing some in February. Do you consider getting, I guess, more aggressive in shifting your acquisition pipeline to focus more on dense urban markets to get ahead of that instead of the resort and Sunbelt strategy over the past year?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

So Jay, your question is, are we going to move to where the puck is going or where the puck has already been, right, in the words of Wayne.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

Correct.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

As we think about acquisition opportunities, I will say a couple of things. We don't have a red line through any market in the United States today, and nor do we have a red line through any property type. However, we have not seen a lot of opportunities in the major urban markets to date. And we did have a keen focus last year on Sunbelt and resort markets. Even if we were to deploy capital into the major urban markets, assuming we could find the right asset at the right pricing and it worked for us, I think the demographics of the nation are such that we will continue to deploy capital in Sunbelt markets for a lot of reasons. Just the inflows of business, the inflows of people, the favorable operating environment, the low cost structure, it makes those markets attractive to us.

In resorts, today, we own 16 resorts, it's the -- if you look at supply statistics, the lowest level of new supply in the nation is in the resort market. And the second lowest level of new supply is in the big-box hotels, many of which we own. So we're very comfortable in both of those areas. And as opportunities become available, we will certainly evaluate them. There just hasn't been anything in the market that's been of interest to date.

Operator

Your next question for today is coming from Stephen Grambling.

Stephen White Grambling - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Stephen with Goldman Sachs. Maybe a follow-up on the urban market question. Are you seeing any change in the supply backdrop in these markets, given how long some of these assets have effectively stayed at a negative EBITDA? And would that potentially be a catalyst for you may be shifting back into those markets? I shouldn't say shifting back, but maybe refocusing there.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Yes, Stephen, supply has taken a material hit in a lot of the markets around the country, I think that CBRE and STR are projecting supply growth at just over 1% through at least 2023. The total pipeline is down something like 8% to prepandemic levels. There are a lot of projects out there, but they're just languishing right now. The most comforting statistic around supply is the in-construction pipeline is now about 25% the prepandemic levels.

So the supply situation is, you can't paint a broad brush with it. The lowest supply markets are Hawaii, San Diego, San Francisco and Seattle. Unfortunately, there's still a lot of supply coming online in New York. And I think we're going to see that happen over the course '22 and even '23, and there's a lot of supply coming online in Los Angeles. So there are some hotels that are not going to reopen in San Francisco and in New York, but it's nothing like the talk early in the pandemic about a massive shift of hotel inventory coming out of the market. So again, market specific, asset specific, pricing specific, but we will continue to explore opportunities, again, with the sole objective in mind being elevating the EBITDA growth profile of the company.

Operator

Your next question is coming from Robin Farley.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

It's Robin Farley with UBS. A lot of my questions have been answered. I guess just maybe one more follow-up on the transaction environment, just given you had a great track record of transactions last year. Just with kind of a more recovered market out there, interest rates moving up, I guess how much opportunity, how would you compare the environment generally in terms of opportunity for transactions compared to where it was

in the second half of last year? And if you can remind us if there's a certain dollar amount that you have to spend on acquisitions this year like as a result of 1031 exchanges or anything like that, that we should keep in mind to.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Yes. Robin, the second part of your question regarding certain dollar amount, there is not. We have been able to like kind exchange, our sales proceeds really reversed like kind of exchange or sales proceeds into the acquisitions that we did last year, most recently, the -- sell the Sheraton Boston into the Hotel Van Zandt. So we're in a very good place with respect to no pressure to buy assets to protect the 1031 exchange issue.

I think what happened with the Omicron variant coming to light in December. Typically, we would see a strong pipeline of assets at the ALIS Conference, which was held third week in January this year. I did not, and we as a company, that my team did not hear a lot of acquisitions in the market today. We think people have pulled back as a result of Omicron, and just wanted to wait and see what the impact was on hotel performance. And as we've said, $105 RevPAR in January, $150 to $155 RevPAR in February, a strong bounce back. So I would expect that we'll see more properties come to market in the second half of the year. But at this point in time, there just aren't that many assets out there that we're interested in. And I might remind you that of the 7 assets we bought last year, 5 of them, we purchased off market. So we're going to continue to have conversations with owners of hotels that are of interest to us.

Operator

Your next question is coming from Anthony Powell.

Anthony Franklin Powell - *Barclays Bank PLC, Research Division - Research Analyst*

It's Anthony Powell from Barclays. Just a question on the dividend, which was a nice surprise. How did you get to the $0.03 quarterly number? You didn't have to pay dividend given your NOLs. I'm curious how should we expect the dividend to trend over the next several quarters as you look at the percentage of FFO, cash flow? Just more detail would be super helpful.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Sure, Anthony. No magic number that we said. It really is what we are comfortable paying based on the recovery trajectory that we are seeing. It will all depend, frankly, on how that operational recovery pans out. And obviously, our goal is to grow that dividend and get it to a sustainable level. But $0.03 is what we are comfortable with for the first quarter. We'll see how operations shape up and what happens in subsequent quarters. It will obviously be authorized by our Board of Directors.

Anthony Franklin Powell - *Barclays Bank PLC, Research Division - Research Analyst*

So it could go up here even in the short term, if things continue to improve. Is that a fair assumption?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

That's fair.

Operator

Your next question for today is coming from Aryeh Klein.

Aryeh Klein - *BMO Capital Markets Equity Research - Analyst*

Aryeh Klein with BMO. Maybe on the CapEx front, the Marriott transformation program wraps up this year and some CapEx-needy assets have been sold. Is the $400 million to $500 million ex Marriott kind of the right way to think about CapEx beyond 2022? And what are some of the major ROI projects that are being contemplated beyond this year?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Sure. Let me start with a couple of the major ROI projects that are in that number. And I do want to emphasize that -- of the CapEx guidance we've given, $200 million is related to 2 major ROI projects that we believe will develop very -- deliver very attractive returns, double-digit cash-on-cash returns on the money we're putting into them. And the first is the Ritz-Carlton in Naples. It's a complete transformation of that asset, every part of the resort, which is just a terrific hotel on the beach in Naples, Florida is being touched. We are increasing the room count from 450 rooms to 474 rooms. And we're combining 100 keys at that property, just to give you some color, to allow us to enhance the suite count from 35 suites to 92 suites. We're building a 74 key new tower, and we're building a new club lounge that is, frankly, 6x the size of the existing club.

Why is that important? For context, club rooms get an average annualized ADR premium in excess of $220. And we just didn't have the space at that property to sell the number of club rooms that the demand would warrant. So we're very excited about the things we're doing in Naples.

Additionally, we are building a new swimming pool, a new pool bar and completely redoing the lobby. This is anticipation in part a couple of things. Number one, focus groups, work that we did indicated that it was time to really update this property, it had been built in 1985. And really, the bathrooms in particular, needed to be updated, and we went from 3-fixture bathrooms either 4- or 5-fixture bathrooms throughout the entire hotel. We wanted to get ahead of the opening of the new Four Seasons down the road, which is about 3 years out. So we'll be in very good shape.

Another asset that we're investing in, in a meaningful way, a transformational way is the Fairmont Kea Lani on the island of Maui, Wailea. Again, another terrific resort that we think is going to develop -- going to deliver double-digit returns, double-digit cash-on-cash returns on our repositioning and that's roughly $120 million, and allow us to better compete with the Four Seasons, which is adjacent to the property.

So that's how we think about CapEx. We have, I think, this year, as I mentioned in my remarks that we're going to -- in addition to finishing up the Marriott Transformational Capital Program, we're going to complete and reposition 3 other properties: The Westin in Denver, the Westin in Georgetown and the Miami Biscayne Bay Marriott. All expected to meaningfully increase yield index as a result of the capital that we're investing.

So we're well on the way. We're excited about a 3- to 5-point gain in yield index. We think actually that we're going to do better than that because that 3- to 5-point gain that we've messaged, a 3-point index is $22 million. Those numbers were developed prepandemic. And over the course of the pandemic, we have been investing in our assets. Again, it's 1 of our 3 strategic objectives to gain market share. And we feel very confident that as business returns that our assets are going to meaningfully outperform the competition because those assets, a, either haven't been invested in or they're going to have to be taken out of service, and there's going to be a tenant disruption. So stay tuned on that front.

Operator

Your next question is coming from Chris Woronka.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

It's Chris from Deutsche Bank. Jim, as you guys think about the new cost structure that you've put in place and I understand still trying to hire some employees to fill it out. But we don't know exactly yet where all the brand standards are going to fall, right, on housekeeping and things like that by brand and price point. So the question is, is this going to be an evolving situation? Or do you think the brands get to a point where they say,

this is the standard, we're going with it and hire employees as needed? Just trying to get a sense for whether there's any kind of latent risk that we're going to end up with more labor than we thought we might need a year from now.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Let me start the answer, Chris, and then I would like Sourav to jump in as well because he has been having the conversations at the brand level. We started having conversations on brand standards pre-COVID. So it's not something that the initiative wasn't undertaken just as a result of the pandemic, but it was something that we had conversations with our major managers on -- in 2018 actually and in 2019. It's very clear now that there's no one brand standard that fits all hotels. Both of our major managers have seen significant reductions in headcount at their headquarters, which really impacts above-property costs and expenses. So I think we feel very confident that we're not going to see creep coming back in.

With that said, I'll let Sourav jump in and maybe even talk about some of the more recent conversations we've had.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Yes, I would echo what Jim said. I don't think there is really risk in terms of creep coming back, and we have confidence in that. And when you look at our success in expanding margins pre-COVID, which is pretty meaningful, we really just separated ourselves from our peers on the margin front, was because we didn't let costs creep come back. And this time around, like I was saying earlier, we have zero-based everything for every single hotel. That's the first time we had the opportunity, because a lot of hotels suspended their operations, for a management team to really take a step back, work very closely with our asset management and enterprise analytics teams to come up with what the ideal operating model should be and staffing levels could be once things get back to normalized level.

So for anything that gets added back, there is an approval process that needs to go through. And unless there's truly an ROI associated with that position being added back, we certainly do not approve it. So we are pretty confident that if there is any position added back, there is going to be a return associated with it. Otherwise, it's not going to be added back.

Operator

Your final question for today is coming from Rich Hightower.

Richard Allen Hightower - *Evercore ISI Institutional Equities, Research Division - MD & Research Analyst*

It's Evercore ISI. I guess just to -- maybe play devil's advocate for one second here on the dividend, at least over the long term. I mean certainly in the short term, I totally understand a nominal dividend for sort of technical factors in terms of who can own the stock and so forth. But given that we're as early into the new cycle as we are, there's a lot of investment opportunities probably coming down the pike. You've got significant NOLs that will probably shield you from having to pay a significant dividend for several years. So what's the thought about paying more than a penny than you have to pay once cash flows sort of stabilize? Why focus on a dividend? Do you think investors really care about it at the end of the day?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP, CFO*

Rich, one thing I want to make sure is clear is we do not have a significant amount of NOLs at the REIT level. A majority of our NOLs is at the TRS level. So therefore, the question doesn't arise of shielding sort of our taxable income with NOLs at the REIT level. The REIT-level NOLs that we did have, we effectively plan to use if there is any gain on sale and to offset that. So it is -- I just want to make sure that's clear. So whenever taxable income is going to be generated, we will be paying that off -- paying that out as dividend. So I just want to make sure that's clear, Rich.

Richard Allen Hightower - *Evercore ISI Institutional Equities, Research Division - MD & Research Analyst*

Yes, that is helpful. Yes. And then just more broadly then, just in terms of the opportunity landscape relative to the dividend, not that they have to be mutually exclusive by any means.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Yes, Rich, I don't think they are mutually exclusive. If you look at the quantum of cash that goes out with the $0.03 dividend, it's what $21 million, order of magnitude, annualize that times 4, it's $80 million. So there's a subset of investors that aren't able to -- were not able to own our stock. And we have the balance sheet. We have confidence in the recovery. And we want to give everyone an opportunity to participate in that recovery which is one of the reasons why we reinstated the dividend at $0.03.

Operator

That is all the time we have for questions today. I would now like to turn the floor back over to Jim for any closing comments.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Well, I'd like to thank everyone for joining us on our fourth quarter call today. We appreciate the opportunity to discuss our quarterly results with you. I look forward to meeting with many of you at in-person conferences in the coming weeks and months. Be well and stay healthy, and thank you for your continued support.

Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.
