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Presentation

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

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

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.

On 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.

With that, I would 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. Despite the Delta variant, we continued to significantly outperform expectations and meaningfully beat consensus metrics during the third quarter. We delivered Adjusted EBITDAre of $177 million, which exceeded our interest and capital expenditures by $21 million, and Adjusted FFO per share of $0.20 during the quarter. In addition to delivering positive metrics each quarter this year, these metrics continued to see meaningful sequential increases over the prior quarter.

Pro forma total revenues in the third quarter increased 25% sequentially over the second quarter while pro forma hotel-level operating expenses grew only 21%. The increase in revenues was driven by strong leisure demand at resorts and hotels in Sunbelt markets and Hawaii, which led to a $67 million increase in Adjusted EBITDAre in the third quarter compared to the second quarter.

RevPAR for the third quarter was strong, as volume improvements extended across the portfolio and rates held up in sunbelt markets. While we saw softer demand in September due to Delta variant concerns, RevPAR for the quarter still improved by 26% compared to the second quarter. Our hotels saw a 49% increase in business transient room nights and a 72% increase in group volume over the second quarter. Our recent acquisitions all contributed to the outperformance during the third quarter and are exceeding our underwriting expectations.

Preliminary October RevPAR is expected to be approximately $143, a $15 increase over September, and the highest RevPAR we have seen this year. We believe RevPAR will dip slightly in November due to seasonality before coming back in December.

While much of the recovery was concentrated at resorts in sunbelt markets during the first half of the year, our urban markets saw significant RevPAR improvements during the third quarter. At the start of the quarter our urban and downtown markets had a weekly occupancy of 50% and by the end of the quarter these markets were running at nearly 56% occupancy. Quarter-over-quarter RevPAR in our urban and downtown markets grew by 89% to almost $96, driven by both ADR and occupancy improvements.

In addition to the sequential improvements in operations, we continued to execute on our three strategic objectives, all of which are aimed at elevating the EBITDA growth profile of our portfolio. Our objectives include redefining the hotel operating model, gaining market share at renovated hotels, and strategically allocating capital.
As it relates to the last strategic objective, we made another off-market acquisition during the third quarter – Alila Ventana Big Sur in California. This brings our 2021 year-to-date acquisitions total to $1.2 billion dollars at a blended 13.1x EBITDA multiple. This is a continuation of our strategy to deploy capital into assets that will elevate the EBITDA growth profile of our portfolio.

On the dispositions front, subsequent to quarter end, we sold five hotels, totaling 2,323 keys, for $551 million, including FF&E reserves, at a 14.2x EBITDA multiple, including foregone capex, based on 2019 results.
Following this acquisition and our recent dispositions, which I will discuss in a moment, we have $1.7 billion of total available liquidity, including $138 million of FF&E reserves.

As a reminder, we have completed five off-market hotel acquisitions this year, including the Hyatt Regency Austin, the Four Seasons Orlando at Walt Disney World, Baker's Cay Resort in Key Largo, the Laura Hotel, which was formerly known as the Hotel Alessandra, in Houston, and Alila Ventana Big Sur. We also acquired the Royal Ka'anapali and Ka'anapali Kai Golf Courses in Maui.

All our recent acquisitions are performing substantially ahead of our underwriting expectations. As of September, the updated 2021 Forecasted EBITDA at the Hyatt Regency Austin is $3.4 million higher than the full year 2021

EBITDA that was estimated at underwriting, the Four Seasons Resort Orlando is $17.4 million higher, Baker's Cay Resort is $2.9 million higher, and the golf courses are $3 million higher.

In addition, we acquired the former Hotel Alessandra, a luxury downtown hotel in Houston's central business district. At the time of acquisition, the hotel was closed and fully unencumbered by brand and management. The property has been rebranded as The Laura Hotel and it will be operated by HEI Hotels & Resorts as part of the Autograph collection by Marriott. We have identified a number of opportunities that we believe will increase the EBITDA growth profile of this hotel, including affiliating the property with a major brand reservation system, expanding the F&B outdoor seating capacity, activating the rooftop pool experience, and leasing the ground floor retail. The hotel is expected to open in the fourth quarter of 2021.

Turning to our most recent transaction, in September, we closed on the off-market acquisition of Alila Ventana Big Sur for $150 million. This ultra-luxury resort is one of the most uniquely located hotels in the United States and benefits from extremely limited supply and high barriers to entry due to strict land use regulations by the California Coastal Commission. We purchased the property at a 9.3x EBITDA multiple on 2021 forecasts. The RevPAR is expected to be $1,320, the TRevPar is $1,870, and the EBITDA per key is $273 thousand based on 2021 forecasts. The performance ranks first in our 2019 pro forma portfolio on RevPAR, TrevPAR, and EBITDA per key by a very wide margin.

Alila Ventana Big Sur is located on 160 acres of irreplaceable, fee simple land on the California coast. It benefits from views of both the ocean and the Redwood forest and is a drive-to destination for some of the country's most affluent areas. The hotel has 59 keys, consisting of both rooms and suites, and is operated under an all-inclusive model. It offers a luxury spa, three pools, a high-end fitness center, 12,000 square feet of event space, and two restaurants with locally sourced foods and a variety of private dining experiences. In addition, the hotel has a number of unique outdoor amenities, including 63 campsites with 15 luxury tents located within the Big Sur Redwoods, as well as numerous tailored experiences and adventures. I cannot emphasize enough the unique nature of this asset, and we are delighted to add it to our portfolio as the 12th Hyatt branded property, continuing our position as the largest third-party owner of Hyatt hotels.

The hotel is Hyatt-managed under the Alila brand, and since Hyatt's acquisition of Two Roads Hospitality in 2018, the property has enjoyed increasing market share and a record year of profitability in 2021. The hotel significantly benefits from its Hyatt affiliation and World of Hyatt redemption bookings, which contributed a substantial amount of total room nights sold in 2020 and 2021. This demonstrates the growing desire for high-end leisure experiences among World of Hyatt loyalty members. In conjunction with the operator, we have identified additional opportunities to grow EBITDA at the property, and we have conservatively modeled this asset to stabilize between 8-10x EBITDA in the 2025-2027 timeframe.

The hotel recently completed a $23 million renovation and repositioning, investing $390,000 per key in the guestrooms, public spaces, pools, camping facilities, and back-of-house areas. We are excited to have an ownership presence in Big Sur, and we believe the iconic and irreplaceable nature of Alila Ventana Big Sur will further strengthen the EBITDA growth profile of our portfolio.

As I mentioned, we disposed of five hotels, totaling 2,323 keys, for $551 million, which includes $11 million of FF&E reserves, subsequent to quarter end. We sold the hotels at a 14.2x EBITDA multiple, including foregone capex, based on 2019 results. These five assets were sold as a portfolio and included the Westfields Marriott Washington Dulles, the Westin Buckhead Atlanta, the Whitley, the San Ramon Marriott and the Westin LAX, both on ground leases. The avoided capital expenditures associated with these 5 properties is approximately $122 million over the next 5 years. We are pleased to have this capital to further bolster our EBITDA growth profile, as we deploy it into high growth assets in our existing portfolio or into new acquisitions.

In total, we have invested $1.2 billion in early-cycle acquisitions year-to-date. The blended EBITDA multiple on our five hotel acquisitions this year now stands at 13.0x, which compares favorably to the $551 million we disposed of at a 14.2x EBITDA multiple. Between 2018 and 2021, we acquired $2.8 billion of assets at a 14x EBITDA multiple and disposed of $4.0 billion of assets at a 17x EBITDA multiple, including foregone capex. Since 2017 we have dramatically improved the quality of our portfolio, increasing the RevPAR of our assets by 10%, the EBITDA per key by 20%, and the EBITDA margins by 110 basis points based on 2019 pro forma results. As we evaluate capital allocation opportunities going forward, we will continue to focus our efforts on assets with higher expected growth, with the objective of elevating our EBITDA growth profile.

Moving onto third quarter operations, we saw significant improvements in transient room nights, which were up 18.5% compared to the second quarter. Our hotels in urban and downtown markets saw strong improvements in transient demand compared to last quarter as municipalities relaxed covid restrictions. Occupancy in these markets increased by 17.4 percentage points to approximately 50% in the third quarter along 24% ADR growth. In our sunbelt and Hawaiian markets, transient rates remained resilient, up 26% in the third quarter compared to 2019, despite a modest softening of transient demand over the prior quarter due to seasonality.

Our hotels saw continued strength in leisure demand during the third quarter. Encouragingly, we saw a solid pick up in leisure demand in our urban and downtown hotels. For comparison, over Columbus Day weekend, our urban and downtown hotels achieved approximately 70% occupancy with an ADR of $231 versus 55% occupancy with an ADR of $180 over the July 4th holiday. Special events such as the Boston and Chicago marathons, and the return of Broadway shows in New York, helped to drive this demand.

Weekend occupancy at our entire portfolio reached 75% in early October with an ADR of $259 compared to a historical level of 87% and $259 in 2019.

Resort revenue increased $43 million over 2019 driven by 39% ADR growth with rates at most of our resorts seeing double-digit percentage increases. We expect strong demand at our resorts to continue through year-end, particularly at our Hawaii hotels after the recent news that the state welcomed non-essential travel back on November 1st.

Sourav will get into more detail on our business mix during the third quarter shortly.

In addition to our successful capital allocation efforts this year, we remain focused on our three strategic objectives. As a reminder, we are targeting a potential $240 to $315 million of incremental EBITDA over time on a stabilized annual basis as we execute the initiatives and projects underlying our strategic objectives. This range includes hotel EBITDA of approximately $93 million from our acquisitions year-to-date.

First, we expect to generate $100 to $150 million of potential long-term cost savings over time based on 2019 revenues from redefining our operating model with our managers. We have taken steps toward 50-60% of these savings to date.

Second, we expect to generate $21 to $35 million of incremental EBITDA over time on a stabilized annual basis from our goal of gaining 3 to 5 points of weighted index growth at the 16 Marriott Transformational Capital Program hotels and five other hotels where major renovations have been recently completed or are underway. Keep in mind that our expectation of a 3-to-5-point gain in market share was a pre pandemic estimate. As we have been in the unique position of deploying significantly greater capital in 2020 and 2021 than our competitors, we are optimistic that our market share gains could be greater as the property competitive set is either an inferior product due to lack of renovation or there will be meaningful business disruption as hotels are renovated. We expect to complete approximately 85% of the Marriott Transformational Capital Program by year-end and substantially complete the program by the end of 2022. We expect to invest $1.2 billion in these 21 assets or approximately $73,000 per key.

As of the third quarter, we have invested $834 million in renovations at these hotels, and we do not expect to spend significant capital on these assets in future years.

During the third quarter, we completed renovations at the New York Marriott Marquis, which included a complete upgrade of the guestrooms, renovations of over 140,000 square feet of meeting space, the expansion of a skybridge lined with two high-definition LED screens, and a reimagined lobby with new bars and upgraded restaurants. Subsequent to quarter end, we completed transformational renovations at the Orlando World Center Marriott in Florida, which included the guestrooms, and an updated lobby, restaurants, and bar. These multi-year comprehensive renovations at the two largest hotels in our portfolio were part of the Marriott Transformational Capital Program and bring the total number of completed projects in this program to 10 of 16 properties. We avoided significant business disruption by completing these projects during the pandemic, and as a result, they are very well-positioned to capture market share in the recovery. In addition to the Marriot Transformational Capital Program assets, we recently completed the extensive guestroom renovations at the Hyatt Regency Coconut Point in Florida.

Lastly, we expect to generate $25 to $35 million of incremental EBITDA over time on a stabilized annual basis from recently completed and ongoing ROI development projects. These projects are at different stages of renovation and development, and stabilization is expected to occur two to three years after completion. Some recent examples of our ROI development projects include the Andaz Maui Villas, which are targeting 49% occupancy with an ADR over $1,600 for 2021 versus our underwriting at 34% occupancy with an ADR of $1,400, and the 1 Hotel Beach Club enhancements, which have led to over $2.5 million in incremental revenues with returns exceeding the underwriting.

To conclude my remarks, we continue to be very encouraged by the operational recovery we are seeing across the lodging industry. As we move further into the recovery, our capital allocation efforts over the past few years, the improved quality of our assets, and the elevated EBITDA growth profile of our portfolio should accrue to the benefit of our stockholders. These factors combined with our strong balance sheet, geographic diversity, and size, scale, and reputation leave us very well-positioned to capitalize on accelerating demand.

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

SOURAV GHOSH, CFO & TREASURER:

Thank you Jim and good morning everyone. Following Jim's comments, I will go into detail on our third quarter cash flow, operations, expenses, and our topline outlook for the remainder of the year.

As Jim mentioned, we delivered positive Adjusted EBITDAre and FFO during the third quarter. In addition, we achieved an important milestone this quarter with positive cash flow for the first time since the onset of the pandemic. We delivered Adjusted EBITDAre of $177 million, which exceeded our interest and capital expenditures by $21 million. We continued to benefit from quarterly sequential improvements with 65 hotels achieving positive hotel level operating profit compared to 53 hotels last quarter.

Subsequent to quarter end, these operational improvements led us to another important milestone of exiting our credit facility covenant waiver period three quarters ahead of its expiration and coming into compliance with our bond indenture debt incurrence covenant. This reduces our $2.5 billion credit facility interest rate by 40 basis points and gives us greater balance sheet flexibility.

Moving on to topline performance, while our sunbelt hotels and our resorts continued to drive results, the third quarter represented the best quarter of the recovery for non-sunbelt and large group hotels. Multiple hotels achieved positive EBITDA in Chicago, DC, Boston, and San Francisco, and all hotels in Philadelphia and Denver maintained

positive RevPAR for the second quarter in a row. Our large group hotels in San Diego, San Antonio, and New Orleans also maintained positive EBITDA in the third quarter.

Expanding on Jim's business mix comments, our hotels saw business transient room nights increase 49% over the prior quarter with a 5% increase in ADR to more than $172. Even more encouraging is that 40% of those room nights came from our urban and downtown hotels where business transient rooms sold increased 112% over the second quarter. Additionally, we saw increasing activity from traditional top 10 accounts, including a mix of Fortune 500 financial, government, and consulting companies, a positive given the challenges the Delta variant presented during the quarter.

On the group front, group revenue showed steady sequential improvement over the prior quarter with a 72% increase in room nights combined with an 11% increase in rate driven by our hotels in San Diego, New York, Boston, San Antonio, Austin, and Chicago. Overall group room nights in the third quarter were 52% of 2019 levels, despite the Delta variant headwinds.

We were pleased to see corporate group perform better than expected in the quarter. This segment contributed 43% of total group room nights in the third quarter, which is on par with our pre-pandemic mix. Corporate group rate also strengthened to $196 in the third quarter, which is the highest it has been since the first quarter of 2020 and indicates that more traditional groups are coming back. Corporate group also drove significant improvements in banquets revenue, which was up 100% quarter-over-quarter.

Association group room nights of 150 thousand was more than triple that of the second quarter, which we view as another positive sign for the return of large, traditional groups. Affinity groups, which include social, military, education, religious and fraternal organizations, have been driving group demand during the pandemic. These groups continued to show sequential quarterly improvement, up 27% over the prior quarter.

Looking forward, we currently have over 570 thousand definite group room nights on the books for the rest of 2021, and we maintained 1.2 million group room nights on the books for the third and fourth quarters despite concern over the Delta variant. Of those group room nights on the books for the fourth quarter, over 42% of them are booked in San Diego, Boston, Orlando, and Phoenix.

Net booking activity in the third quarter for 2022 totaled 180 thousand room nights. 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 roughly 2.6 million group room nights on the books in 2022, an 8% increase over the second quarter. For comparison, this represents about 54% of 2019 actual group room nights compared to 50% last quarter.

Moving onto expenses, pro forma total operating costs rose by 21% during the third quarter compared to the second quarter despite a 25% increase in total revenues.

Variable expenses were down 40% relative to a total revenue decline of 32% when compared to the third quarter of 2019. Most of this gap is due to the hiring pace lagging demand growth, and we expect this gap to moderate through the fourth quarter as our operators continue to ramp up staffing levels. The number of open positions at our major operators indicate they are at roughly 94% of targeted staffing based on current business volumes. For comparison, our managers have historically operated at 97% of targeted staffing based on historical business volumes.

Fixed expenses, including wages and benefits, were 19% lower than the third quarter of 2019 and 16% higher than last quarter. Similar to last quarter, some traditionally fixed expenses like sales and marketing came back as business volumes continued to increase.

Combining revenues and expenses, this quarter our expense reduction ratio came in at 0.93, which means that for every 10% decline in hotel revenue compared to pro forma third quarter 2019, there was a 9.3% reduction in expenses. As Jim mentioned, in the third quarter, pro forma total operating expenses were down 30% to the third quarter of 2019 on revenues down 32%.

On our last call, we indicated that we were expecting an expense reduction ratio of 0.75 to 0.80 for the second half of this year. The difference between our third quarter result and our forecast can be attributed fairly evenly to three factors – average daily rate came in better than expected, wages and benefits did not ramp up as expected due to hiring challenges in certain markets, and we had unanticipated favorable one-time items in the quarter, including business interruption insurance proceeds and property tax savings, totaling approximately $10 million.

We are expecting an expense reduction ratio of approximately 0.85 for the year, which reflects our expectation of rate-driven RevPAR growth and a continued lag in expense growth driven by labor costs.

As you may recall, we introduced the expense reduction ratio during the pandemic to measure the change in property-level expenses against the change in total revenue. As our revenue declines compared to 2019 decrease in size, one-time expenses have a much bigger impact on the ratio, thus making it less relevant. We therefore expect to revert to pre-pandemic metrics in the coming quarters as operations continue to normalize.

Turning to our topline outlook for the remainder of the year, we are still unable to provide guidance given the continued uncertainty surrounding COVID. That said, we continue to expect sequential quarterly RevPAR improvements driven by rate growth from leisure travelers at our resorts, and we are encouraged by the performance of our urban hotels as demand drivers in those markets continue to recover.

We also expect group and business transient to continue improving in our urban and downtown markets as impacts from the delta variant moderate, companies return to the office, and traditional groups get back to meeting in person.

To conclude, we are very pleased with our achievements during the third quarter, including generating positive Adjusted EBITDAre, FFO, and exiting our credit facility covenant waiver period three quarters ahead of its expiration.

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 our strong balance sheet, accretive capital recycling, and the strong recovery that is underway. We continue to make significant progress on redefining the operating model with our managers, increasing market share at our 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: Your first question for today is coming from Rich Hightower. Please announce your affiliation, thenpose your question.

RICH HIGHTOWER, EVERCORE: I'm still with Evercore ISI. So a lot of statistics thrown out on the -- in the prepared comments, so thank you for the detail there. But maybe give us a sense, there's a lot of time spent on the improvement in the urban and the downtown segments of the portfolio. And maybe give us a sense there of where you stand in October and I guess even November, so far in terms of rate and occupancy versus the same periods in 2019? And do you expect those hotels to bridge that gap in the same way that the leisure and resort segments have already done? Do you think that, that gap could be fully bridged sometime next year? Is that a 2023 event? How do we think about that?

JIM RISOLEO: Yes, Rich, I'll start here, and then Sourav, feel free to jump in as well. The number that we provided for our October RevPAR is a preliminary portfolio number. And we do not have granular data at this point in time on -- in the performance at the Urban hotels versus Sunbelt leisure hotels. We did a rollout, and we saw that $143 is a good number, and that's the number we provided. So we're confident given the trajectory of the business return that we saw in the third quarter, in particular, that the business is going to continue to ramp. And the encouraging -- a lot of encouraging data points, as we said in our prepared comments.

But one of the most encouraging with respect to the urban hotels is the level of leisure business we saw come back to those properties, as amenities started to open up, such as Broadway in New York. We saw the Boston Marathon. We've had really strong performance on the leisure side. We're seeing a lot of solid business transients come back to the urban properties as well. And that's business transient from our traditional -- more traditional accounts. The top 10 accounts that are household makes financial services, consulting, defense-related businesses, government accounts. So we are very encouraged with the ramp that we're seeing occur. To give -- go from 50% at the beginning of the quarter to 56% in occupancy at the end of the quarter and C&I uptick in rate is very encouraging to us. So as vaccines continue to be rolled out.

We had good news, I guess, it was just yesterday that adolescents are now approved for vaccines. So down to -- children down to 5 years old are eligible to get a vaccine. We think that's very encouraging. We feel that businesses are going to get back to work. They're going to open their offices. And there is clearly a pent-up demand on the part of businesses to get out on the road and meet people. I mean we're experiencing it ourselves in our offices. -- the number of folks who want to come behind saying hello, face-to-face really is a testament to the fact that there's no substitute for in-person communication and in-person collaboration. So Sourav, I don't know if you have anything else that we can add at this point in time.

SOURAV GHOSH: Rich, I can give us some color at least on the BT front as it relates to October specifically. We do expect October to be the strongest BT month for 2021. Approximately 60,000 room nights is what we have on the books for BT, and that's a 17% increase over September. If you recall from the beginning of the year from January through July, we had about, on average, a 30% sequential improvement in BT room nights every single month. We saw a slight increase from July to August and then a slight dip from August to September, but now we have picked up and back on the trajectory that we had seen early on in the year.

So very encouraged. And as Jim talked about, sort of our overall BT rate is actually up 5% quarter-over-quarter, and that's holding strong. As it relates to 2019, we are about, call it, around 50% of '19 levels as we stand right now, and we expect that to continue to improve with every single quarter going forward.

SMEDES ROSE, CITIGROUP: It's Smedes with Citi. Sourav, you gave a lot of statistics around labor and cost ratios, which we'll probably look through in more detail. But I guess in general, I just wanted to ask you about the pace of labor costs, particularly for our workers and sort of tying that back to your initial cost, because it seems or can you tell me if this is fair, but it seems that labor has definitely moved higher than maybe what those -- some of those initial goals provided. And I'm just wondering if it takes you longer to get that cost savings target? Or have you just been able to offset other?

SOURAV GHOSH: Sure, Smedes, you were breaking up there a little bit, but I think I got your question. On the labor front, what I'll start off with is sort of end with $100 million to $150 million that we have messaged is when we were going into 2020, we were expecting higher than inflationary growth in a few of the Sunbelt markets, and that's obviously pre-pandemic. So as we went through the pandemic, there were obviously the rate of acceleration in terms of wage growth in those markets went up. For the portfolio -- if I can give you some specific numbers here, for the portfolio, I would say, we expect a CAGR from '19 to '22 of about 5% to 7%. Now I would break that down between urban and Sunbelt markets. For urban, just given a lot of those are covered under the CBA, that would be around 3% to 4% CAGR from '19 to '22. In the Sunbelt that CAGR would be about 6% to 8%. So again, the overall portfolio, we expect that CAGR of '19 to 2022 to be about 5% to 7%.

Now as it relates to the $100 million and $150 million that we messaged, remember that was in relation to 2019 revenues and expenses. So reality is, depending on how quickly we get back to '19 levels of revenue, we can see all that benefit sort of come through to the bottom line. Obviously, depending on how much inflationary -- above inflationary growth we see in wages and benefits, it will be shaved off and that will impact margin going forward. So hopefully, that answers your question.

NEIL MALKIN, CAPITAL ONE: Neil Malkin, Capital One Securities. Great quarter, great announcements. Jim or Sourav. I thought it was pretty impressive that you were able to keep your occupancy fairly steady through the third quarter despite the of the Delta variant's impact on particularly the corporate side of demand. Can you just talk about how you were able to do that and sort of what things levers you were able to pull or sort of what came in better than expected that allowed you to kind of maintain those occupancies again, despite the dip in the middle of the quarter from a national level?

JIM RISOLEO: Yes, Neil, look, we're very encouraged with the trend line that we're seeing going forward. And I think one of the most encouraging data points with respect to the second half of the year and the third quarter and the fourth quarter was the fact that we were able to maintain 1.2 million group room nights on books, notwithstanding Delta. So it just points out that there's a lot of pent-up demand in the economy in general, when people want to get back out, they want to meet, they want to travel. We've seen a little bit of a pullback as a result of Delta as everyone else did. But as the Delta trend line started to diminish and we got over the peak and new cases, and people saw that we were going in the same direction as countries and other parts of the world where, they got back on the road.

So there's no magic to it. I mean I think 1 of the -- and we've talked about this a lot. The quality of our assets is really second to none. And the fact that we have continued to invest capital in our portfolio, we think, it is going to be a true competitive advantage as business really starts to open up. I mean I said it in my prepared remarks with respect to market share gains, as we embarked upon the Marriott transformational capital program back in '17 and '18, we underwrote 3 to 5 points pickup in the RevPAR yield index, that was pre-pandemic. Now that we're going to have a portfolio that is largely refreshed, I mean we're going to spend $75,000 a key on the 21 properties that we referenced, 16 Marriotts and 5 other assets, we would expect that we'll continue to see strong performance going forward, and I'm optimistic quite frankly, that will pick up more than 3 to 5 points in yield index.

So I think it's a combination of the quality of our assets, the location of our assets. Our asset managers and enterprise analytics team is working very closely with the best in the business, whether it's Marriott, Hyatt, or independent managers that are out there, just really being very thoughtful about revenue management strategies

and yield management strategies and getting business in the hotels while maintaining rate integrity. And I think that's a big -- that's another big story as we open up for business again. This pandemic and post-pandemic has been marked by a material yield ADR integrity as opposed to what happened coming out of the Great Recession. So we're able to truly asset manage these hotels and revenue manage them to maximize RevPAR. And I expect we'll continue to do that going forward.

WILLIAM CROW, RAYMOND JAMES: Jim, just curious on the group side. I think yesterday, Marriott suggested that group revenues on the books for next year, down roughly 20%. I think you said your pace is down 46%, rate up just a little bit. Is it a locational issue? Is it just the big city wise or what creates such a big gap between what Marriott was suggesting for their portfolio, and you, who own a lot of the Marriott group houses?

JIM RISOLEO: Bill, I don't know if anybody on the host team or Sourav listened to the Marriott call. I did not hear what they had to say. But we are at -- for 2022, as we sit here today, we have 54% of our group room nights on the books for next year that we had relative to the same time in 2019, for 2020. So we're encouraged that, that number actually ticked up from 50% at the end of our second quarter call to 54% now. So I don't know what Marriott said with respect to pace, but we're actually encouraged. I mean we have roughly 2.6 million group room nights on the books. And if we looked at the same period of time, quarter 3, 2019 for quarter 3, 2020, just to give you some context, and this is what we talked about last quarter, we had 68% of our actuals on the books at that point in time. So I think the real number to look at is 68% to 54%. And that's the gap that we're working real hard to close. Does that answer your question, Bill?

WILLIAM CROW, RAYMOND JAMES: Yes. I think if I could just put a little bit finer point on it. How are New York and San Francisco, in particular, stacking up next year on a group basis? And then maybe Sourav, if you could just tell us how much cancellation and attrition fee income was included in the third quarter results? That would be great.

JIM RISOLEO: Yes. Well, look, San Francisco is going to have a challenging 2022. There's no question about it. As we look at convention calendars for next year, San Francisco is very challenged. They're not at the bottom of the pack, quite candidly. I think a lot of that has to do with the fact that they were the last major city to open their convention center. I mean they didn't open their Moscone until September of this year. So San Francisco will recover. It's going to take time for San Francisco to recover.
With respect to New York, New York is a tough market, if you want to talk about citywide, because they don't have a lot of citywides in New York City. And what we're seeing in New York is the return of a lot of affinity groups, a lot of corporate groups are coming back. And we're very encouraged with what we're seeing in New York, particularly as international inbound comes back into that market. International inbound in New York City accounts for about 12% of our business. So Again, as the borders open up, and it's early, but we are encouraged with what we're seeing in New York.

SOURAV GHOSH: Before I give an attrition or cancellation number, Bill, on the group front, one thing I'll say is we obviously are expecting more in the year for the year bookings in 2022. So while yes, pace is lower than what we had in '19 for '20, it's somewhat expected just given the skittishness in terms of booking, particularly with the blip that we had with Delta. We do believe a lot of those accounts are going to come out in the sidelines and then book in the year for the year. So we expect in the year for the year activity to be much greater than what we had seen back in 2019. And also, sort of since the start of 2021, just to put it in perspective, we booked 600,000 room nights for '23 to '25, and that's like a 20% increase since the start of the year.

And if you compare the same time period, the 3 years from '19, that was at 23% for future years. So that we are doing really well. It's a matter of 2022, which we feel will do well in the year for the year. To answer your attrition cancellations question.

JIM RISOLEO: Let me add one more data point, Bill, for your benefit. As we look -- because we spent some time looking at citywides for 2022. And if we look at all citywide markets, we have about 89%. The citywide calendar is -- equates to about 89% of 2019 citywides. And we have obviously a number of markets that are going to outperform like Minneapolis, San Antonio, Atlanta, Houston, Chicago and Boston. And on down the line with, quite frankly, San Francisco being at the bottom of that list. But there's a lot of good news out there as well. And sitting here today, 89% again, makes us feel pretty good about how things are going to evolve. So Sourav, you want to answer the question about attrition cancellation?

SOURAV GHOSH: Yes. We recognized $16 million of attrition cancellation for the quarter.

WILLIAM CROW, RAYMOND JAMES: 16. Is that what you said?

SOURAV GHOSH: Yes, 1-6. Correct.

THOMAS ALLEN, MORGAN STANLEY: Yes. Morgan Stanley. So just thinking about the fourth quarter and the RevPAR trends. You talked about November RevPAR dipping with the seasonality then back in December. Can you just help us think about the outlook on the kind of versus 2019 level? And how you see trends going forward?

SOURAV GHOSH: Yes. So our October number is down about 34% to 2019. I put this in perspective, I think November sitting here right now, I would guess somewhere in the neighborhood of down $5 to $7 from October. And then December close to October RevPAR. That's sort of what we are thinking as we said, as of today, just based on the data that's available.

THOMAS ALLEN, MORGAN STANLEY: Okay. And then I mean, typically you haven't given monthly. So is that implying on a versus 2019 level, things are improving as we go through the year? And then my follow-up question that I'm going to ask is the borders are opening next week for more international visitors, are you seeing a material benefit from that in bookings yet? Or is it too early to tell or too difficult to tell?

SOURAV GHOSH: We've got an anecdotal commentary on that, speaking with some of our hotels in New York as well as San Francisco. I mean flight -- international flight bookings are certainly up 15% since the announcement has taken place for 6 weeks out from the time of the announcement. The bookings are up 15%. And specifically for San Francisco, that's up 34%, and that compares to what it was 6 weeks before that announcement. So it's encouraging from a hotel perspective, in New York. We've definitely seen a transient pickup, and we can attribute a pretty meaningful percentage to pick up from Europe, specifically. But I don't have any hard numbers yet that I can share.

DORI KESTEN, WELLS FARGO: Wells Fargo. Now that you've exited the covenant waiver period for your credit facility, what barriers exist returning to paying a common dividend?

JIM RISOLEO: Dori, the barrier that exists is our belief that we will see a sustained recovery and put us in a position when we start paying a dividend again, that we can maintain the dividend and increase the dividend on a regular basis. So we view paying a dividend as 1 of the arrows in the quiver of capital allocation, and we realize that dividends are important to a lot of our shareholders. Our policy prior to the pandemic was to pay out 100% of our taxable income. As a REIT, we have to pay out 90%. And as we see how business returns and as we can wrap our arms around the pace of the recovery, we will take it -- take that into consideration as we think about reinstating the dividend.

ANTHONY POWELL, BARCLAYS: A transaction question. We haven't got 1 yet. Just the pipeline has been very strong this year. The Big Sur acquisition is attractive. What's the pipeline look like going forward? And as you look

at acquisitions going forward, given you exited the covenant waiver, how do you rank incremental debt equity offerings and using your cash balance at sources of funds for those deals?

JIM RISOLEO: Anthony, the pipeline continues to be vibrant, I would say. As you know, the deals that we've been able to get done this year have been off-market transactions, and that's where we continue to stay focused right now. Because there is a fair amount of competition out there, given that the debt markets are flush with cash, the CMBS market, in particular, flush with cash and a lot of the private equity firms were sitting on the sideline waiting for the CMBS markets to come back. So we are starting to see more competition. As we think about sources of capital, we're very, very delighted that we could exit the credit waiver amendment 3 quarters before expiration.

And one of the other data points that we did discuss is the fact that we had a debt incurrence test under our bond indenture. As you know, our portfolio is completely unencumbered. So it's all balance sheet debt. And we had a debt incurrence test under our bond indentures that precluded us from getting from issuing new debt, hard stop until we got back above 1.5x interest coverage. So we've met that threshold as well. I think it's going to, on the margin, give us a little more flexibility on the acquisition front. There were several transactions in the market that we worked on last year that had existing debt in place. And that debt was prohibitively expensive to break and pay off. So we had to take a pass. But now with the fact that we can acquire assets with that, that gives us another opportunity to look at a few hotels out there that are encumbered with existing financing.

So we're very happy with our cash position. We're happy with the fact that we have come out of the credit waiver amendment 3 quarters early. And between cash on hand and the ability to issue new debt, I think that is the direction you would see us going if we continue to deploy capital into new acquisitions.

ANTHONY POWELL, BARCLAYS: Got it. Got it. So the bar is higher for ATM now. Is that fair?

JIM RISOLEO: I think that's very fair. Yes.

CHRIS WORONKA, DEUTSCHE BANK: It's Deutsche Bank. Thanks for all data points guys, very helpful. Question is, Jim, you guys came out a bunch of data on your acquisition date and how much they're beating initial underwriting. And I think that was a comment probably on '21. Could you just talk about if that's correct, could you talk about whether the expectations for future years have also changed?

JIM RISOLEO: Well, we're -- Chris, we are in the middle of the budgeting process. So it's a little early to give you specific numbers, but I would venture that coming off the strong base in '21, that we're seeing it really every deal that we've acquired this year that '22 is likely to outperform our underwriting expectations as well. When we underwrote the acquisitions throughout the course of this year, we were in a very period of gray uncertainty. We didn't really have a sense on how Delta -- COVID was going to behave and when the country was going to be able to get COVID under control. So a long way of saying that we were conservative in our underwriting.

And conservative in our underwriting, but as we look out to, say, '23, '24 and beyond, and the financial performance that we baked into these properties, it penciled on an IRR basis and allowed us to pull the trigger and deploy capital. I think that it's going to be meaningfully better across the board. I mean if you just look at where we put capital and what's happening in these markets, some of the best, highest growing -- highest growth markets in the country, with meaningful barriers to new supply. If you think about Alila, truly iconic and irreplaceable asset to be able to buy that at 9.3x on this year's EBITDA, an asset that's generating $275,000 a key in EBITDA, and we're not seeing any slowdown there.

The Four Seasons Resort Walt Disney World. We're just starting to see the benefits of the celebration, the 50th anniversary celebration of Walt Disney World. It just kicked off in October. So I expect that we're going to see outperformance going forward. And I think that you'll see it across all the assets we bought that we're going to

continue to see it in our resort portfolio, which is comprised of 16 properties now. And we will see business return to the major urban markets. We've been encouraged there as well this last quarter.

CHRIS DARLING, GREEN STREET: I'm with Green Street. Just going back to the Ventana acquisition for a second. You mentioned 8 to 10x stabilized EBITDA multiple by about 2025. But given you're acquiring it at just over 9x multiple, does that imply that this is really the high watermark for the near term and you might be expecting a dip in performance over the next couple of years? And then also curious if you could comment on the terms of Hyatt's management agreement then?

JIM RISOLEO: Yes. Well, with respect to the terms of Hyatt management agreement, that's not something that we're in a position to talk about. Chris, I will tell you that the World of Hyatt is doing an incredible job filling that -- filling Alila Ventana. I mean we're getting between 65% and 75% of our room nights through World of Hyatt redemptions. And as a high redemption hotel, we're getting the premium rate, the highest rate that the property is selling rooms for. So at 59 rooms, that gives us the opportunity to really yield manage -- to revenue manage the rooms that are not being sold through the World of Hyatt redemption program.
So with respect to our stabilized EBITDA multiple, we gave a range of 8 to 10x. Is 8 doable? I think it is doable, but are we being conservative and throwing a range of 8 to 10 out there, I think that's the way you should think about it.

ARI KLEIN, BMO: BMO. Maybe on the disposition, you sold a few post quarter and I guess or reportedly some others that might be on the market. How should we think about asset sales from here? Have you done most of the heavy lifting? Or is there anything else that you'd look to sell?

JIM RISOLEO: I mean it's -- real estate alert is always good with publishing a rumored acquisition or a rumored disposition and I'm very glad that on the slide pack that they indicated we were going to sell for $500 million, and we ended up selling it for $551 million. So with respect to future dispositions, I think that you should think about our capital allocation strategy really with one bottom line goal in mind. Everything that we do is meant to elevate the EBITDA growth profile of the portfolio. And if we were to sell other assets, it would be because we believe that we're getting fair value for the assets relative to our hold value and that by making those dispositions, we can redeploy that capital either into new acquisitions or into assets that we currently own that are going to grow faster than the rest of the portfolio on average.

So as you're thinking about dispose going forward, I think that's the way -- that's the bottom line. It's all to elevate the EBITDA growth profile of the portfolio.

OPERATOR: Ladies and gentlemen, that is all the time we have for questions. I would now like to turn the floor over to Jim for any closing remarks.

JIM RISOLEO: Well, thank you, everyone. I'd like to thank you all for joining us on our third quarter call. We appreciate the opportunity to discuss our quarterly results with you and I look forward to meeting with many of you, unfortunately, virtually at NAREIT next week. We really wanted to have the NAREIT meeting in person at the Wynn Hotel in Las Vegas. But there wasn't universal support among all the REIT -- all the REIT teams to meet at an environment where masks are required and they're still required. So for those of you that I don't meet virtually, enjoy the upcoming holiday season, be well and stay healthy. And we, at Host, thank you for your continued support.

OPERATOR: Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.