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Transcript of Host Hotels & Resorts Inc
Third Quarter 2020 Earnings Call
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Participants

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Jim Risoleo, President and Chief Executive Officer
Sourav Ghosh, Executive Vice President, Chief Financial Officer and Treasurer

Analysts

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Lukas Hartwich – Green Street
Rich Hightower - Evercore

Presentation

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

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

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

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

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

JAMES F. RISOLEO PRESIDENT & CEO:

Key Achievements:

Thank you, Tejal, and thanks everyone for joining us this morning. I hope all of you and your families remain safe and healthy. Over the last several months, we've transitioned from responding to the challenges posed by this pandemic, to rebuilding our business within its confines. To that end, I would like to highlight three key achievements since our last earnings call. First, we've achieved gradual but steady revenue growth with our portfolio delivering sequentially higher RevPAR each month, from a historic low of approximately $9 in April, to a preliminary estimate of $37 in October. Although third quarter and October RevPAR remained more than 80% lower year-over-year, third quarter revenues grew over 90% quarter-over-quarter as our operators maximized their efforts to access all potential sources of hotel demand, which continues to gradually increase.

Second, we have reduced our third quarter hotel-level operating loss by approximately 40% from second quarter levels, including the benefit of a $23-million employee retention credit. Based on third quarter results, and excluding the employee retention credit benefit, we have reduced our monthly on-going hotel-level operating loss by approximately 25% on average compared to the second quarter. Our sequential revenue growth has flowed through to our bottom line as our operators have continued to do an outstanding job of minimizing expenses. Finally, we have further strengthened our robust liquidity by raising over $600 million of capital through opportunistic asset sales and debt refinancing and repayments. As a result, if fourth quarter operations are commensurate with the third quarter, we expect to end the year with approximately $2.4 to $2.5 billion of total available liquidity, including cash and FF&E reserves, with no debt maturities until 2023.

Near and Longer-Term Priorities:

As we enter the ninth month of the pandemic with daily COVID-19 case counts in the United States near all-time highs, we continue to believe that the demand recovery will remain gradual and choppy before the widespread availability of effective COVID-19 vaccines and therapeutics. Therefore, our key near-term priorities remain:

i. Working with our operators to continue to access all potential sources of demand,
ii. Minimizing expenses and reducing hotel cash burn and
iii. Maximizing liquidity.

We are equally focused on our longer-term objectives of structurally redefining our operating model, positioning our portfolio to gain RevPAR index share and capitalizing on opportunistic investments to create long-term value for our stockholders. Let me walk you through our progress on these near and long-term objectives before handing the call over to Sourav to explain our third quarter operating performance.

Demand:

Beginning with demand, although occupancy continues to be driven by leisure travelers our hotels are also capturing short-term group, airline crew and small but steady business transient volumes.

Group:

We booked 127,000 group nights in the third quarter and delivered 88,000 more room nights than the second quarter if you exclude New York, which accounted for the majority of group room nights in the second quarter due to medical and first responder business. Excluding New York, group rooms increased progressively throughout the quarter, from 19,000 in July to 40,000 in August and 49,000 in September, primarily driven by Corporate and SMERF events. Nine of our hotels booked sports-related group blocks, from major league baseball and NFL teams to ESPN and other sports media with a notable 800 rooms booked at Hyatt Regency San Francisco

Burlingame for the PGA championship in August. In addition, the Andaz Maui was partially bought out by a film-production unit, which generated over 8,000 total room nights across September and October, two months when regular hotel operations were temporarily suspended. With robust safety protocols in place, including testing attendees upon arrival and employees on a daily basis, the Andaz generated a little over $1.7 million of incremental hotel - level EBITDA from this business.

While our operators are striving to access all potential sources of hotel demand, they remain focused on working with meeting planners to restore confidence in traditional group meetings and events. In October, the Orlando World Center Marriott hosted this year's Connect 2020 conference with more than a thousand in-person attendees at our hotel and one hundred and seventy-five virtual attendees at home. Every detail was meticulously designed for safety as the trade show was spread across our 39,000 square foot Crystal Ballroom, with widely spaced booths and aisles so that large groups of attendees were able to socially distance safely. Attendees complied with the hotel's mask mandate and plenty of masks were available on-site. The property was able to complement the in-person event with virtual suppliers and a digital trade show that occurred simultaneously. We believe this hybrid meeting format will augment in-person demand and Marriott plans to host four global hybrid meeting events starting on November 9 at our Ritz-Carlton, Tysons Corner. While such events help publicize the fact that meetings can take place safely despite the complexities posed by the pandemic, restrictions on large group gatherings remain in place for most states and local jurisdictions, and nearly all conventions and citywides have been cancelled through the first quarter of next year.

Group booking patterns:

We remain optimistic about group business on a medium to long-term basis due to encouraging group booking patterns. Rebookings as a percentage of cancellations continue to increase with approximately 16% of group business that was canceled in 2020 now rebooked into future years, up from 11.6% in the second quarter. Moreover, group cancellations for 2021 remain concentrated through April with groups that are scheduled for the second half of next year holding fairly steady. In the third quarter, we booked a net 81,000 group rooms for the second half of 2021 driven by San Francisco/San Jose, Orlando, New York and the DC Metro region. We have 2.2 million definite rooms on the books for 2021, which on a full-year basis is 31.5% lower than the same time last year and on a second half basis, is 7.7% lower. For context, we had approximately 3.2 million definite rooms on the books for full year 2020 at the same time last year.

Finally, our operators achieved a robust sequential increase in 2022 to 2024 group bookings. We booked nearly 100,000 more room nights for these out-years in the third quarter than we did in the second quarter, with room night activity down only 13% to the same time last year. Importantly, for these out-years, ADR is only 80 basis points lower than the same time last year, in contrast to the deep discounting that prevailed in aftermath of 9/11 and the Great Financial Crisis.

Business Transient:

Moving on to business transient, demand remains minimal but has improved from 11,000 room nights in July to 13,000 in August and 14,000 in September. Business transient. A variety of industries are driving demand, including healthcare, consulting, technology and financial and business services, with no particular stand-outs. In general, both group and business transient demand is being driven by smaller organizations rather than by the large corporate accounts. We continue to believe that business travel will recover in line with the broader economic recovery because of the ROI it generates for businesses. For every dollar spent on business travel, there is a $10 return in revenue and a $3 return in profit according to a 2013 analysis by US Travel and Oxford Economics, which statistically modeled 14 industries over 18 years. Moreover, travel makes up only about 1% of total U.S. corporate sales and roughly 2% of operating expenses, according to the US Bureau of Economic Analysis, making travel cuts less impactful to long-term profitability than is commonly perceived.

Contract:

Turning to contract revenues, although TSA passenger volumes have slowed recently, they grew steadily during the third quarter as airlines continued to add more destinations. Our operators drove additional crew business to our hotels, resulting in 31,000 more contract rooms in the third quarter compared to the second quarter, a 71% sequential increase.

Leisure:

And finally, leisure demand, which relatively outperformed other types of demand through the summer, has held up better than it historically does post Labor Day. As lines between work, school and home remain blurred, our operators have created new offerings to appeal to consumers looking to escape the monotony of being at home. Hyatt introduced the work from Hyatt package and Marriott launched the 'work anywhere with Marriott Bonvoy' package. The packages facilitate working productively from a hotel for the day, a short stay or an extended resort workcation, another example of our operators innovating to access all potential sources of demand.

Cash Burn

Moving on to cash burn, our hotel level operating loss averaged $40 million a month in the third quarter, not including the employee retention credit received under the CARES Act. That's $10 million per month lower than the monthly cash burn scenario we outlined on our second quarter call and approximately half the worst-case scenario of $70 to $80 million that we discussed in May. Our third quarter hotel-level cash expenses, less the employee retention credit, increased by 19% on a revenue increase of over 90% compared to the second quarter. Our operators have demonstrated their commitment to achieving hotel-level breakeven as soon as possible by continuing to minimize costs and add back expenses only as necessary to service business levels at the current low occupancy rates.

Assuming operational performance remains at third quarter levels, we would expect approximately $95 to $105 million of total monthly cash outflows, reflecting an average hotel level loss of approximately $40 million a month, as well as estimated capex, interest payments, and general corporate overhead. Above property, corporate level monthly cash outflows will be sequentially higher in the fourth quarter, due to the timing of capex and interest payments. Sourav will provide greater details on our near-term cash burn trajectory in his prepared remarks.

Asset Sales

Moving to our final near-term objective of maximizing liquidity, we raised over $600 million of capital through opportunistic asset sales and debt refinancing since our last earnings call. We sold the 532 room Newport Beach Marriott Hotel & Spa for $216 million, which exceeds our pre-COVID internal hold value for this asset. Moreover, we reduced our future capex commitments with the sale of this hotel, including $19 million of contractually required owner-funded capex for the Marriott Transformational Capital Program and associated systems renovations.

This was an opportunistic sale at pre COVID-19 pricing to a buyer who has strategic reasons to own the asset. We are pleased to have achieved a total capex adjusted valuation of 13.8 times 2019 EBITDA and a 6.8% cap rate based on 2019 NOI, and to have further enhanced our liquidity and reduced our near-term capital spending requirements. Moreover, there will be no incremental REIT distribution requirement imposed by the income tax gain generated by the sale of the Newport Beach Marriott due to a combination of the first quarter common cash dividend that was paid in April 2020 and the anticipated tax net operating loss to be incurred by Host Inc. in 2020.

We also completed the second closing on the sale of development land at the Phoenician, bringing our total land sales at that asset to approximately $83 million this year. As we have discussed in the past, the sale of this land wasn't in our underwriting when we acquired the hotel in 2015; however, it was a part of our vision to unlock the tremendous value we saw in The Phoenician. We are pleased to have executed an incredibly complex rezoning and entitlement process by solving multiple technical issues. In so doing, we have successfully monetized approximately 38 acres of non-income producing land and created value for our stockholders, while retaining an additional 21 and a half acres of land to create further value through a combination of future sales or resort expansion. The buyer plans to build approximately 165 luxury condominium units, 85 single family homes and 30 villas on these parcels and residents will have the option to purchase an amenity program with The Phoenician to access resort amenities and other services. We anticipate that this built-in demand will help drive Food & Beverage, Spa and Golf revenues at the resort.

Debt Refinancing:

To conclude on our near-term objectives, we further enhanced our liquidity position by issuing a total of 750 million of Series I Senior Notes in two substantially oversubscribed tranches, resulting in an attractive coupon of 3.5% and a reoffer yield of 3.6% to 3.7%. In conjunction with our Series I issuance, we completed a tender offer of our 4.75% Series C Senior Notes due 2023 with an approximately 81% participation rate. As a result, we further augmented our cash position by $343 million while extending our average debt maturity and maintaining our weighted average interest rate.

Redefining the operating model:

Shifting to our longer-term objectives, we are working with our operators to redefine our operating model. Cross utilization of management functions and a reduction in the fixed component of above-property charges are two of the biggest contributors to our long-term cost savings target of $100 to $150 million, which is based on 2019 revenues and represents approximately 3% to 4% of proforma 2019 hotel-level expenses. To date, our operators have made solid progress on both these of these priorities as they restructure their workforce and their above property shared services for sales, marketing, revenue management and IT. We remain deeply committed to working with our operators to create long-term efficiencies that will allow us to generate greater profitability at lower levels of occupancy. A more profitable operating model will not only make for a faster recovery to 2019 EBITDA levels, but it will also improve the long-term value of our assets.

Marriott Transformational Capital Program:

Now turning to investments, let me begin with our capital investment plans for the portfolio. We believe our ability to continue to invest in our portfolio is a unique competitive advantage that will positively influence our relative performance and our growth trajectory through this lodging cycle. Although we have cut our 2020 maintenance capex budget by nearly 40%, we continue to invest in the Marriott Transformational Capital Program as well as in other ROI projects. On a combined basis, these represent nearly 70% of our 2020 capital spend this year. Moreover, nearly 70% of our investment in the Marriott program will be complete by year-end 2020 and the entire program will be substantially completed by year-end 2022.

As a result, we expect to gain RevPAR index share during the heart of the recovery. First, as we outperform the competition that is unable to invest this year or next and second as we maintain our RevPAR Index share gains when competitors disrupt their operations to renovate assets later in the cycle, with 2022 likely being the first year that many will be able to meaningfully invest in their portfolios.

The Coronado Island Marriott Resort & Spa, for example, completed its Marriott Transformational Program renovations last year and has improved its RevPAR index share by 9.8 points through August this year compared with the same period in 2018. This is nearly three times the program's expectations of 3 to 4 points of index share gains. It has also outperformed the San Diego downtown Upper Upscale submarket by 16 points year-to-date, implying over $2 million in incremental room revenues.

Acquisitions:

Moving on to acquisition opportunities and the transaction markets, a record 26% of CMBS hotel loans were in special servicing in September 2020, compared with 1.9% in December 2019, and 70% of hotel loans are either in special servicing or on special servicing watch lists according to Trepp research. Delinquency rates are expected to move higher as forbearance agreements start to roll off. Additionally, some hotel owners who were hoping for a recovery, may not be able to sustain the cash outflows required to service their indebtedness, and may decide to throw in the towel.

So, although we don't see high-quality assets trading at this time, we continue to focus on opportunities where we can leverage our competitive advantages such as deep owner, broker and operator relationships and our ability to do large transactions. Our reputation for providing speed and certainty of closing and ability to offer tax-advantaged structures to sellers are additional distinguishing factors.

Conclusion:

To conclude, our near-term objectives aim to lower our cash burn and maximize our liquidity while our longer-term objectives are designed to drive faster EBITDA recovery by structurally improving margins, gaining market share and acquiring assets. With $2.4 to $2.5 billion of expected total available liquidity at year end, we believe we have the ability to withstand prolonged business disruption and capitalize on opportunities for growth. We entered this crisis as one of the lodging REITs with the lowest leverage and greatest balance sheet capacity and believe these remain key attributes that are necessary to create meaningful long-term value in this new lodging cycle.

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

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

RevPAR

Building on Jim's comments, our third quarter topline performance improved from the historic lows recorded in the second quarter. RevPAR for the third quarter declined by 84.1% year over year compared with a 93% year over year decline in the second quarter. Year over year occupancy and ADR declines both improved on a sequential basis, as we reopened 20 hotels in the third quarter and summer leisure travel bolstered overall hotel demand.

Compared to STR data for US Upper Tier hotels in our top markets, our total portfolio's ADR declines were 150 basis points better than the industry's. We outperformed on average occupancy in 11 of our top markets in the third quarter. However, our overall occupancy declines were 370 basis points greater than STR, primarily because our portfolio has more hotels in prime, downtown locations than the industry does. Notably, our RevPAR was in line or better than the industry's in our resort-oriented markets such as Jacksonville, Florida Gulf Coast, Miami, Phoenix and Hawaii as well as in Northern Virginia and New York where we benefited from crew business and corporate room blocks.

ADR

Our operators continue to be able to preserve and, in some cases, to even exceed rates versus the same time last year at properties that are in high demand, especially on strong compression dates such as national holidays.

For example, our Florida coastal resorts delivered 22% year-over-year ADR growth in September. In general, rate doesn't appear to be driving occupancy to the extent it normally would in a downturn. Customers are more sensitive to cleanliness and sanitization standards than to room rates. We therefore remain hopeful that rate degradation will be less severe than in prior downturns and that branded hotels will benefit from having stringent cleanliness standards to help gain customer trust and strong loyalty programs to help drive demand.

Non-Room Revenues:

Shifting to non-room revenues, third quarter F&B revenues on a proforma basis declined by approximately 90% year-over year due to a 96.5% reduction in banquet and AV revenue and an 81% reduction in outlet revenue. At our open resort properties, however, outlet revenues per occupied room were nearly 28% higher year-over-year as leisure transient guests continued to dine on-property during their stay. While other revenues included approximately $10 million of group attrition and cancellation fees, we do not expect to recognize material cancellation and attrition revenues related to the pandemic going forward as we continue to prioritize the rebooking of group business.

October 2020 Topline:

Preliminary topline numbers for October reflect a gradual but steady month over month improvement with October RevPAR at approximately $37 compared to September RevPAR of $34 and $0.64 driven by 20.7% occupancy and an approximately $179 ADR. Year-over-year RevPAR declined by approximately 82% and was almost the same as the year-over-year RevPAR decline recorded in September.

November 2020 Topline Expectations:

Looking at November, we expect topline performance to be negatively impacted by the election this week but are hopeful that demand will gradually improve around the holidays. Although visibility remains limited as the length of the booking window remains extremely short, our portfolio is generally well positioned to capture short lead-time demand as we now have 75 of 79 hotels representing 94% of our total room count open.

Hawaii Reopening:

Speaking of reopenings, let me provide you with a brief update on Hawaii, which reopened to tourists on October 15th. Travelers who get a COVID-19 test no more than 72 hours before departure and show proof of a negative test upon arrival are now exempt from the mandatory 14-day quarantine rule. Multiple airlines and airports are now offering rapid COVID-19 testing for Hawaii bound passengers thereby enabling a gradual return of tourists to the islands. For November, occupancy on the books is currently ranging between 20% to 35% across our four properties in Maui and Oahu. Moreover, the November through January transient ADR pace for our hotels in Hawaii is up 3.8% year-over-year.

Expense Reductions:

Moving on to expenses, we worked with our operators to reduce third quarter hotel operating costs by over 65% year-over-year excluding the $43 million of severance paid in the quarter. Although our operators recorded a $23 million reduction in expenses related to the employee retention credit received in the third quarter, this benefit was more than offset by $31 million of healthcare benefits paid to furloughed employees. As a reminder, we accrued $32 million for that expense in the second quarter. In the third quarter, we accrued an additional $26 million for similar payments that will be made in the fourth quarter.

As previously disclosed, we expect to incur another $16 to $26 million of severance expense in the fourth quarter as our operators continue to re-evaluate the workforce structure and implement changes that are expected to lead to a more efficient operating model in the long term.

We have worked closely with our operators to minimize expenses in the third quarter despite reopening more hotels and achieving greater levels of occupancy. Fixed costs declined 46% year-over-year, excluding the employee retention credit, which is remarkable when you consider that a significant portion of the remaining fixed expenses consist of property taxes and insurance. The quarter-over-quarter increase in fixed costs was largely due to improving business levels and increased maintenance, utilities and contract services costs at the 20 hotels that were reopened during the third quarter. Variable costs were down 85.5% on a total revenue decline of 84% year-over-year. Since April, variable cost declines have broadly matched revenue declines while ongoing wage and benefits costs have only slightly increased with improving volumes. Hotel management teams have implemented productivity saving protocols, restructured F&B platforms, and improved the cross-utilization of associates. As an example, our operators have more than offset the cost increase associated with revised cleanliness protocols by driving productivity improvements in housekeeping.

Fourth Quarter Expenses:

For the fourth quarter, we believe we will see continued cost containment for wages, benefits and variable expenses, where cost reductions mirror reductions in overall volume. With regards to fixed costs, the brands have already communicated reductions in above property costs. Moreover, we would also expect the tax benefit we experienced at the corporate level in the third quarter to continue along the same trajectory.

Breakeven/Profitability:

15 hotels delivered a hotel-level operating profit for the entire third quarter with 18 hotels recording a hotel-level operating profit in September, excluding the impact of the employee retention credit. At the hotel EBITDA level, we are breaking even in the 35 to 45% occupancy range when ADR is down 15 to 30%, in line with the estimates we provided in April. Assuming the inclusion of corporate level expenses for interest and corporate G&A of approximately $20 million per month, on average, we would breakeven at occupancy levels of approximately 45% and 60% at the same ADR decline levels of 15% to 30%.

As you think of our path to EBITDA breakeven and subsequent growth, it is important to note that once we achieve hotel-level breakeven for the consolidated portfolio, we would expect operating expenses to ramp commensurate with business volumes. Therefore, we would expect to remain at breakeven within a range of occupancy, before inflecting upward.

Cash burn:

Moving on to cash burn, as Jim noted, we expect fourth quarter above property, corporate level monthly cash outflows to be higher than the third quarter largely due to the timing of capex and interest payments. At the hotel level, if operational performance remains at third quarter levels, we would expect an operating loss of approximately $40 million a month, excluding the benefit of the employee retention credit. Based on this scenario, overall fourth quarter cash burn would be higher than the third quarter and in the range of approximately $95 to $105 million a month. Of this amount, approximately $35 million a month is related to our capex program.

I'd like to note that we haven't provided a hotel-level cash burn break-down for each month of the third quarter because the lumpiness of cash inflows and outflows may make monthly level disclosures misleading. For example, September includes the operating profit guarantee for the Marriott Transformational Capital Program as well as the employee retention credit and would therefore not provide an accurate run rate for subsequent months.

Liquidity:

As Jim mentioned, we successfully refinanced debt in transactions that further strengthened our liquidity by $343 million while extending our weighted average debt maturity and maintaining our weighted average interest rate. This combined with approximately $265 million of net proceeds from the sale of the Newport Beach Marriott and the land at the Phoenician further maximizes our liquidity, which can be deployed in multiple ways to create value for our shareholders.

Conclusion:

To conclude, although limited visibility continues to make forecasting extremely challenging, we continue to focus on what we can influence, which includes minimizing our cash burn and maximizing our liquidity in the near-term, while working with our operators to redefine the hotel operating model and investing in our assets so they may outperform over the long term. Similarly, the strength of our balance sheet and liquidity position allows us to endure an unprecedented crisis today while enabling us to be opportunistic and grow shareholder value in the future. And with that, we will now be happy to take questions. To ensure we have time to address questions from as many of you as possible, please limit yourself to one question.

Q&A

OPERATOR: (Operator Instructions). Our first question today is coming from Rich Hightower with Evercore.

RICH HIGHTOWER, EVERCORE ISI: A lot of ground we could cover here, but I want to talk about maybe the impediments to stronger group business bookings as we think about the second half of next year and beyond. And if you had to sort out the different factors that might be holding that back, I mean, is it public health? Or is it corporate profits and companies thinking about their budgets? I mean, between those 2 or maybe other factors, what do you think might be the biggest hindrance at this point?

JIM RISOLEO: Yes, Rich, Sourav can jump in on the way here, I'll start. The holdback that we're seeing generally in bookings, both on the business side and the group side is related to a couple of things. Number one, government restrictions, and that's being driven by public health concerns. So, as we've talked many times, we're not going to see business return to any sense of normalcy until we have an effective vaccine or vaccines, or therapeutics combined with the vaccine.

That said, we did talk about, we're seeing happen next year with respect to group cancellations, it's clear to us with Connect 2020 being held at Orlando World center, the meeting planners want to get crews back on the road and in hotels. It's very important for associations to meet and for corporate groups to come together as well. So our mix from 2017 into 2019 average mix, group business was roughly, on a revenue basis, call it, 30% association, 47% corporate and 23% SMERF, which is really I would tell you that we're seeing a strong desire on the part of association business to come back. And we're all praying that we have an effective vaccine. So, we can talk about how is looking into 2022 and beyond. And I'll let Sourav take that.

SOURAV GHOSH: Sure. So Rich, I think more than pace, what we're focused on right now, as we had talked about last quarter, was really the tentative bookings, which is demand waiting in the sidelines because pace, obviously, as you would expect, is down because of the uncertainty. But the tentative bookings have really pushed to the second half of next year. Right now, our tentative revenue on the books for the second half is up 32%. So clearly, people do want to meet. It's just a matter of, like Jim said, when they are comfortable traveling again, and that's obviously a broader concern.

The other stat is that we booked 300,000 rooms in the third quarter for the 2022 to 2024 period. When you compare that to the same time last year, it's only down about 45,000 rooms. And from an ADR perspective, the ADRs for the room that we booked is less than 1 point down to the same time last year. So again, encouraging trends when you look out into the future.

ANTHONY POWELL, BARCLAYS: Question on transactions. Do you still think that you'll see an increase in activity in the overall environment for transactions in, say, the first half of next year? And a lot of your peers have talked about structures like JVs and club deals and other kind of alternative ways to start acquiring hotels. Would you consider those as you start to ramp up your activity?

JIM RISOLEO: Anthony, I think we would be very open to exploring club deals and JVs, off-balance sheet formats, if it makes sense to us. We are in a unique position where under our existing credit facility waiver agreement, we can acquire up to $1.5 billion of hotels out of existing liquidity, subject to maintaining $500 million of liquidity in the company.

And as we discussed, we expect, assuming that the fourth quarter trends mirror the third quarter trends, and we're very pleased with how October has played out, that we'll have $2.4 billion to $2.5 billion of available liquidity at the end of this year, taking us into next year.

So, I think that not only are club deals available, we were very successful in putting together a club deal in Europe with GIC and APG, the Euro JV, where we acquired over 20 hotels as general partner, and we would be very happy to do something like that again in the U.S. if the opportunity presented itself.

One of the other distinguishing factors that we have available to us on the acquisition side is the ability to issue operating partnership units that is truly distinguishing, given the liquidity in our stock. And just to share, I think we're trading on average now close to $14 million of stock a day. And it gives an owner the opportunity to provide some liquidity but to the upside as well going forward. So, to ride the upside in Host as our EBITDA continues to improve and our stock price continues
to improve as well.

So, to answer your question about what do we expect to see? Every indication is -- and we're talking to a lot of people about this, every indication is that come the first half of next year, as for various periods, way start to expire and as owners who are in the unfortunate position, where they don't have the liquidity or they choose to not fund debt service payments and other expenses, we expect to see a significant number of properties come to market. So, the answer is, yes, to both your questions.

DORI KESTEN, WELLS FARGO: Hi. Thanks, guys. You detailed in your release your reasoning for drawing down your revolver in the quarter. And when will you expect to be out from under that bond covenant minimum? And are there any other similar constraints that we should be keeping an eye on at this point?

JIM RISOLEO: Dori, it's awfully difficult to speculate when we would be out from underneath the debt incurrence test. I think a lot of it is going to depend on how quickly we have a vaccine and how quickly it's rolled out to the public, and when businesses are comfortable sending people on the road which I touched on in answering Rich's question. I mean we have a lot of government restrictions out there. We're going to have to see the restrictions loosened and I don't think that various government authorities are going to be prepared to do that until we have a vaccine.

So, the short answer is we don't know when we will come back in compliance with the debt incurrence test. We don't have any other issues that you should be aware of today. We're in very good shape. We've done an admirable job of raising another $600 million of cash this quarter in a very opportunistic and low-cost way.

So, today we are focused on reducing expenses, putting the portfolio in a position where we can outperform when the markets do open up, and on maximizing our liquidity.

SMEDES ROSE, CITIGROUP: You spoke a little bit in opening remarks about the breakeven rate. So, in that scenario, would you be more focused on driving occupancy before stressing the rate, just given the cost savings you're targeting or – and then just to that, how are you also thinking about margin kind of with a shift in the business mix? Thanks.

JIM RISOLEO: Yeah. I'll take the first part, then Sourav can jump in. So, clearly, our margins will perform better if we can drive rate at the expense of occupancy. It will just provide for better flow through to the bottom line, then we won't have the incremental costs associated with housekeeping and other expenses associated with having more rooms occupied. That's not to say that we're not going to take every room night that we can, but as we think about margin performance, the better margin performance is driven by rate going forward.

And we are very, very pleased with the fact that we're not seeing the rate degradation that we've seen in other recovery periods when we look at what happened after 9/11 and what happened after the Great Recession. So, fingers crossed that that continues to be the trend going forward and I'll let Sourav talk a little bit about how we think about breakeven occupancy and ADR.

SOURAV GHOSH: So, from a mix perspective, I will start with the second part of the question and how we're managing margins. Despite changes in mix, right now most of our revenues are really rooms only revenue. So, reality is whether we look at leisure business or group, any business coming in, because it's primarily rooms only, our focus is really on expenses that can really reduce and drive higher margins at the rooms level.

Food and beverage outlets in a lot of cases are running limited operations. And as we have said before, before we bring back any food and beverage offerings, we are ensuring they are actually profitable and that we drive profit to the bottom line. From a margin perspective, it obviously is a lower margin business. But at the end of the day, we're looking at EBITDA dollars not necessarily EBITDA margin. So once revenues do recover and we are in a position where we're getting back to pre-COVID levels of revenue, then the focus will be on margin expansion.

And as we have messaged before, we are really focused on driving the $100 million to $150 million of incremental EBITDA compared to 2019 levels and we have made quite a bit of progress on that. And a lot of it is tied to the food and beverage department where there's been significant level of management reduction.

The severance that we had in the third quarter is directly tied to reduction of almost 30% of management head count, the majority of which we believe is going to be a permanent reduction going forward.

SMEDES ROSE, CITIGROUP: Thanks. And then just one more on transaction. Can you just talk about competitive positioning versus private equity or other institutional kind of capital just given they can use higher leverage? And then as you think about potential acquisitions or dispositions whether there's market you'd like add exposure to or exit?

JIM RISOLEO: Yeah. I'll take the second part of the question first. We are generally market agnostic. We do believe that maintaining broad geographic diversification is the way to run the business. That said, some markets are going to open up better and sooner than other markets. So, we will take all that into consideration in our underwriting criteria as we evaluate opportunities going forward.

With respect to competitive positioning, I'd just see that today, the debt markets are generally closed for the level of debt that private equity firms typically need to drive their returns. They're levered returns in the high teens to low 20s or call it mid-teens to low 20s. So, we're not seeing any real competition out there today. In fairness, there's just not a lot of product on the market right now. I mean, we are evaluating every deal that we would deem to be attractive. We haven't come across anything that meets our underwriting criteria given the, you know, the facts and circumstances of where we are in the cycle and in the recovery phase.

DAVID KATZ, JEFFRIES: Hi. Good morning, everyone. Thanks for all the detail and thanks for taking my questions. Jim, I will admit I've gone back and forth just a little, but I wanted to just get your updated thoughts about discussions with the largest brands and the degree to which they can and are reevaluating the value that they deliver and frankly what you pay for it. And what we can reasonably expect to come out of all this? What your view of success really is?

JIM RISOLEO: Sure. Well, I think the way we have been able to grow the business in a very challenged environment is testament to what the brands deliver to us. And, you know, we love the fact that the brands are listening today, and I'll let Sourav jump in on this in a few minutes.

They heard us loud and clear. They heard us with respect to brand standards. As you know that, there are roughly 300 brand standards at the major brands and that would be Marriott, Hyatt and Hilton. And we have worked closely with them to reevaluate each of those standards going forward and it relates to the most basic, David relates to the most basic, David, food and beverage offerings, when the restaurants have to be opened, how long do they have to be opened, what do you have to offer to your customers.

The fact that we are talking about and seeing and I'm going to let Sourav give a little more detail on this, and seeing a true reduction in expenses of between $100 million to $150 million based on 2019 pro forma performance I think is a strong testament to the fact that the brands get it today. They are one with us when it comes to understanding the challenges that owners face and we interface with both brands, our two major operators, Marriott and Hyatt, on a weekly basis. So Sourav, do you want to talk a little bit about how – what progress we're making on the $100 million to $150 million?

SOURAV GHOSH: Sure. Hey, David. So, I would start off by saying that Marriott has actually restructured and reduced above-property shared services for sales and marketing, revenue management and IT, and are right now working towards reductions of their program shared services fees for the following year. For this year, Hyatt has also reduced the fixed component of their above property [ph] IP (00:54:32) cost by 15% and chain marketing fees by as much as 50%. And moving forward, they're really committed to making their fees more variable so that the cost is actually tied to exactly what you were talking about, the value proposition to the owner.

In terms of the $100 million to $150 million, the way we think about it is we would expect that long term there would be permanent reduction of the fixed portion of the above property cost by as much as 10% to 20%. So putting that into the context of dollars, that would be somewhere between $20 million to $25 million of that $100 million to $150 million. Obviously, I would remind everybody that's tied to 2019 revenues. So assuming we'll get back to 2019 revenues, we would be on the above property piece $20 million to $25 million of savings with a 10% to 20% reduction of the fixed piece of the above property costs.

LUKAS HARTWICH, GREEN STREET: Hey. Good morning. So, when looking at forward group bookings, I'm just curious what the curve looks like. Is it a gradual rate of improvement in activity over time or is there kind of a point on the calendar where things really start to hockey stick?

SOURAV GHOSH: I think right now what's happening is even for future bookings, the encouraging thing like I was saying there is booking activity for future years. However, their activity is definitely lower than what you would have expected because there are folks waiting on the sidelines. That's why you have a lot of tentative bookings but not necessarily definite on the books, looking out to the future years.

However, there isn't really cancellations that are taking place. And that's encouraging. It's just that the bookings activity is somewhat, I would say it's slower than you would typically expect because of all the uncertainty that exists in the short term.

CHRIS WORONKA, DEUTSCHE BANK: Hey. Good afternoon, guys. I was hoping to drill down maybe a little bit on the actual property costs. You guys covered a lot of ground on shared services and above property. But how much of an opportunity do you see on some of these labor initiatives like no stay over housekeeping and changing up some of the food and beverage operations? How much of that realistically do you think you can make permanent or the brands willing to accept that or the customers willing to accept it?

JIM RISOLEO: I think on, you know, the housekeeping side, Chris, it is really going to be opt in to housekeeping services as opposed to opt out going forward. And it's going to vary on frankly the type of property we have and the personal profile of the customer. There are going to be some customers if they're staying at one of our luxury hotels who are going to continue to demand housekeeping on a daily basis and depending on different types of properties, customers may not very well – they may not want people in their rooms to clean the rooms as long as they can get clean linens and towels and bathroom amenities that they need delivered to the front door.

So, with respect to food and beverage, I think that we have seen a meaningful change on the F&B side going forward. I don't think you're going to see, as one example, breakfast buffets or likely hot breakfast buffets are likely to be a thing of the past. Hot offerings in the M Clubs and the Hyatt concierge lounges are likely to be a thing of the past. So, those are going to be permanent cost savings. I don't know. Sourav, do you have anything else you want to add with respect to how we're thinking about the operating model?

SOURAV GHOSH: Yeah. I think the only thing I would add is what this pandemic has allowed us to do is really look at zero-based budgeting and ground-up budgeting and tie that with what the value proposition is to the customer. And not only to the customer but also from a brand perspective what the value proposition is to the owner. So, at the property level, it's really understanding what the customer wants and what the customer needs and how we would shift the operating model based on that.

So, the minimum base labor standards are being completely redefined. So, going forward it's going to be tied to what Jim talked about earlier is how brand standards get reevaluated based on customer preferences. So, this is an opportunity where we are able to actually do ground-up budgets to figure out: what is the right labor model? And that's where we are pretty confident, we think we're going to get savings not only from a housekeeping perspective but from food and beverage particularly in the kitchen department as well.