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Earnings Recaps

Leisure demand buoys Pebblebrook over summer into fall

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Pebblebrook Hotel Trust continues to benefit from growing leisure demand for its resorts in drive-to markets, but executives are still cautious about demand as COVID-19 cases increase and winter weather nears.

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BETHESDA, Maryland—After having only eight of its properties open at the start of the coronavirus pandemic, Pebblebrook Hotel Trust executives spoke proudly of the performance at their 39 open hotels during their third-quarter earnings call.

The number of open hotels in its portfolio of 53 properties has grown steadily over the last several months, from a low of eight up to 24 by the company's second-quarter earnings call and now up to 39.

Pebblebrook will reopen its remaining 14 properties as demand recovers and economics dictate and it can reduce losses by opening them, said Pebblebrook Chairman, President and CEO Jon Bortz. That said, officials don't expect to open additional hotels in San Francisco, Chicago or New York until 2021 because of the expected decline in demand in those markets during the colder months of November through February.

"We do continue to evaluate the two remaining suspended hotels in Portland and Washington as demand recovers," he said. "We're also doing everything we can to accelerate this reopening process, including hunting for additional contract business."

Returning demand

Leisure travelers were the primary demand segment during Q3, and they continue to be so, Bortz said. Since the end of Q3, Pebblebrook's eight drive-to resorts in markets such as San Diego and Los Angeles have been the company's strongest performers because of their easy access, outdoor amenities, activity offerings and favorable weather. Leisure has been driving business in urban markets like Philadelphia, where people are looking to get away from the monotony of their daily routines for a weekend.

Leisure demand grew through July and August, peaking over the three-day Labor Day weekend and then continuing after the holiday into the fourth quarter, he said. There was even improvement over the Columbus Day or Indigenous Peoples' Day holiday weekend earlier this month.

"While leisure travel has softened from the summer season's traditional strength, the post-Labor Day falloff has been nothing like a typical year," he said. "Weekends continue to be strong, relatively speaking, of course, and we continue to see weekday leisure travel as well, with many people having flexibility due to work from home and learn from home."

Occupancies at both Pebblebrook's resorts and urban locations have been better in September and October than in August, he said. Excluding Labor Day weekend, October has been better than September.

Weekend occupancy at its resorts ran 84% in August and then 83.3% in September and 83.3% so far in October with one weekend left, he said. Weekends in urban properties ran 38% in August and grew to 50% in September and 48.9% so far in October. For all open properties, weekend occupancies ran at 48.8% in August, 57.1% in September and 56% month-to-date in October.

During the quarter, and particularly since Labor Day, Pebblebrook has seen the beginnings of a modest recovery in business travel, Bortz said. Most of it has been business transient, but there has also been some small group business, including micro weddings, anniversaries and reunions. Most of these have been in outdoor spaces at hotels like LaPlaya Beach Resort & Club in Naples, Florida, and Skamania Lodge at Columbia River Gorge, Washington.

"We expect this recovery in business travel to be a prolonged process with the pace of its recovery likely dictated by health advances, slowing the spread of the virus and improving the outcomes from the virus," he said.

Looking ahead, Bortz said the next four to five months are difficult to forecast given the lack of relevant historical demand trends. The company is also taking into consideration the recent increase in the number of COVID-19 cases throughout much of the U.S..

November is traditionally considered the beginning of the slower travel period; he believes it will be difficult to continue growing nominal revenue through much of the winter. Depending on what happens with the pandemic, revenue might soften somewhat from the September and October periods.

"To be clear, we currently expect that it's likely that nominal industry demand and revenue will soften over the next few months as we enter late fall and winter, which is consistent with what normally happens in our industry as the weather becomes less conducive for travel," he said. "However, with medical advances likely over these next four to five months, we also think it's likely that we in the hotel industry will see improvements in the recovery as warmer weather arrives in the spring."

Renovations

During Q3, Pebblebrook invested $20.8 million of capital into its portfolio, most of which went to completing two transformation projects, said EVP and CFO Raymond Martz. The company redeveloped the Donovan Hotel into Hotel Zena and the Mason & Rook Hotel into a Viceroy Hotel, both in Washington, D.C. They expect to spend an additional $15 million to $20 million on capital investments for the rest of the year, which includes starting the $10.5 million redevelopment of its luxury resort L'Auberge Del Mar in Del Mar, California.

"As we look forward to 2021, we probably don't expect to commence any other significant capital renovation projects during the year," he said. "However, we'll continue to move several transformational projects forward to the design and permitting phases so that we're in a position to quickly commence work on the improvements at the appropriate time in the future."

Within the last five years, Pebblebrook has renovated, redeveloped or transformed 40 of its 53 properties, Bortz said. Breaking that down, the company performed 10 of those in 2018 and nine over the last several quarters.

"Our hotels are in better condition that most of our hotel competitors in our markets, and that difference can be expected to widen as we continue to maintain our hotels and many competitive hotels are starved of capital investments as they struggle to survive," he said.

Bortz said the company will move forward on additional redevelopment of its portfolio on a case-by-case basis. Those decisions will depend on the recovery of Pebblebrook itself, the properties within their markets and the overall pace of the economy as well as the receipt of final public approvals of each project.

By the numbers

Pebblebrook reported a net loss of $130.6 million during the quarter compared to $30 million in net income during the same period last year, according to the company's earnings release. Same-property earnings before interest, taxes, depreciation and amortization amounted to a loss of $19.3 million compared to positive EBITDA of $137 million in Q3 2019.

Same-property occupancy dropped 77.7% year over year to 19.5% while same-property average daily rate fell 17.8% to $215.95, resulting in same-property revenue per available room falling 81.6% to $42.17.

Monthly cash burn has further improved, Martz said. Thanks to healthy leisure travel demand, the start of the recovery of business travel and reopening additional hotels, cash burn has been running $5 million to $8 million at the hotel level, which is $10 million better than the estimate made in May. The total monthly cash burn, which includes corporate G&A, interest and dividend payments is now running between $16 million and $21 million, $9 million better than the May estimate.

"With an increasing number of travelers feeling confident about traveling and staying in hotels each week, we've been pleasantly surprised by the positive momentum in the last few months, given the intense uncertainty in the pandemic environment," he said.

By the end of September, Pebblebrook had $2.4 billion of debt, 100% of which is unsecured with an effective average interest rate of 3.8%, Martz. It has $57 million of debt maturing in November 2021 and no meaningful additional debt maturities until November 2022.

The company has $350 million to $353.2 million available in its $650 million unsecured credit facility and $217 million in cash on hand, implying total liquidity of $570.2 million for ongoing operating and capital investment needs.

Its liquidity is far more than needed to get to the point of generating positive cash flow sometime next year, he said.

As of press time, Pebblebrook's stock was trading at $11.98, down 54.7% year to date. The New York Stock Exchange composite was down 11.2% for the same time period.

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