Host maintains profitability despite RevPAR decline

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Host Hotels & Resorts CEO James Risoleo details the company's first-quarter successes as well as its ongoing portfolio strategy and property renovation.

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BETHESDA, Maryland—Host Hotels & Resorts experienced a quarter of slight contradiction: Its portfolio saw revenue per available room decline by 1% compared to Q1 2018, but the company's overall bottom-line results came in above expectations.

Adjusted earnings before interest, taxes, depreciation and amortization increased by 10% to $406 million for the quarter, beating estimates by $20 million, Host (https://www.hosthotels.com/our-company/company-overview) President and CEO James Risoleo said. The company beat its Q1 EBITDA forecast by $11 million.

The EBITDA margin improved by 50 basis points, he said. Comparable hotel EBITDA margins improved for the sixth consecutive quarter and exceeded expectations.

"These bottom-line results are remarkable considering the comparable, constant-dollar RevPAR decline of 1%," he said.

The decline was the result of a 180-basis-point decrease in occupancy that was partially offset by a 1.3% increase in average daily rate, Risoleo said. The factors playing into the occupancy decrease were disruption from the Marriott Transformational Capital Program, which led to a RevPAR drop of 40 basis pointsas well as a loss of 30 basis points from the tail end of the federal government shutdown in January as well as a softer-than-expected March (http://www.hotelnewsnow.com/articles/294992/What-March-Q1-data-could-mean-for-US-hotels-in-2019).

However, total RevPAR, which includes all hotel level revenue, grew by 30 basis points to $274 million.

"These strong results continue to underscore the advantages of our geographically diversified portfolio of iconic and irreplaceable hotels, our unprecedented scale and platform to drive internal and external growth and the power and flexibility of our investment grade balance sheet," he said.

Revenue during the first quarter increased by 3.3% year over year, due in part to the acquisition of 1 Hotel South Beach in February and a portfolio of Hyatt hotels in 2018, according to the company's earnings release (https://www.hosthotels.com/pressrelease?id=2396702). Net income decreased by $67 million to $189 million during the quarter mainly because of a decrease in gain on the sale of assets, which was partially offset by the improved operating profit.

As of press time, Host's stock was trading at $19.60 per share, up 19.6% year to date. The Baird/STR Hotel Stock Index (http://hotelnewsnow.com/Stock/BairdSTRHotelStockIndex) was up 17.4% for the same time period.

- Click the link for further coverage of first-quarter earnings calls. (http://hotelnewsnow.com/Articles/295063/Q1-2019-earnings-roundup)

Portfolio management

Host has advanced its long-term strategic vision through its active portfolio management, Risoleo said. The company is stronger than ever and positioned for profitable growth, he added. It will continue to evaluate potential acquisitions in key markets while divesting from non-core assets, such as international properties and profitability-challenged assets, like those in New York.

The acquisition of the 1 Hotel South Beach during the quarter demonstrates the company's consistency, he said. The company also sold the Westin New York Grand Central for $302 million during the quarter.

"We intend to maintain our investment-grade balance sheet with a high-end of our leverage target set at three times," he said. "This provides us with a total investment capacity of $2 billion to $2.5 billion. We do not intend to move beyond our targeted leverage range, nor do we intend to invest beyond that capacity."

(http://hotelnewsnow.com/Articles/295063/Q1-2019-earnings-roundup)

Since early 2017, Host has divested of $2.8 billion of non-core and profitability challenged assets, he said. Many of those properties required meaningful capital investment, he added. In that same timeframe, the company acquired $2 billion in high RevPAR earning, high quality, "irreplaceable" assets that did not require any meaningful near-term capital improvements in markets expected to outperform the industry, he said.

Host will continue to be opportunistic in adding value-enhancing assets to its portfolio, Risoleo said. The company is rather agnostic with respect to whether a deal involves one property or multiple assets, he said. The deal will depend on a number of factors, including the asset, the markets, seller expectations and the underwriting.

"With respect to the landscape today, we always have an ebb and flow of assets in our pipeline," he said. "That exists today. We have a fairly healthy pipeline and we're underwriting."

As the company continues to prune its portfolio, it will be opportunistic taking assets to market and responding to unsolicited offers it feels can achieve a value that's in excess of its internal hold value, Risoleo said

"If market opportunities present themselves, we will continue to prune," he said. "If they don't, we're very comfortable with the portfolio we have today. We're not in any rush to grow the portfolio or shrink the portfolio. I want to make that really clear. We're very comfortable with the assets that we own today."

Renovations

Host will continue investing in its portfolio, particularly through the Marriott Transformational Capital Program, Risoleo said. It will spend between $235 million and $275 million on renewal and replacement capital expenditures as well as between $315 million and $350 million on redevelopment and return-on-investment projects this year. The ROI projects include $225 million related to the Marriott Transformational Capital Program, for which Host is "being well-compensated," he said.

Through the program, Marriott provides operating traffic guarantees as protection for the anticipated disruption associated with the incremental span, he said. Host will also receive increased priority returns on the agreed upon investments that will result in reduced incentive management fees.

"For 2019, we expect to receive a total of $23 million of operating profit guarantee payments for both comp and non-comp transformational capital projects which has been included in our guidance for EBITDA," he said.

The program will include 10 Host hotels, four of which will be completed during the year, he said. The four are the San Francisco Marriott Marquis, New York Marriott Downtown, Santa Clara Marriott and the Coronado Island Marriott which is already complete.

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