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Earnings Recaps

Executives detail asset strategies, deals

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Executives during fourth-quarter and full-year earnings calls outlined their strategies on acquiring and unloading assets during the quarter and their projected activity in 2018.

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REPORT FROM THE U.S.—Hotel companies and real estate investment trusts were both active with acquisitions and dispositions during the fourth quarter of 2017, and executives detailed some of the strategy behind their activity.

For more Q4 earnings coverage, click here.

Two of the biggest deals announced in the quarter were Wyndham Worldwide's pending acquisition of La Quinta Holdings' franchise and management businesses and Extended Stay America's sale of 25 hotels to Three Wall Capital.

Read on for more from Wyndham Hotel Group, La Quinta Holdings and Extended Stay America executives about those deals, as well as quotables from other C-corp and REIT executives.

Geoff Ballotti, president and CEO, Wyndham Hotel Group

"We're looking absolutely at every deal that presents itself and we'll continue to do it. But I think what we're most excited about is our organic growth, particularly in North America. We saw our North American pipeline grow 15% and what it really excites us in terms of the organic side of that growth is we're growing in the area of the market right now that we're looking to grow in. Obviously with acquisitions like AmericInn and La Quinta, but (also) with our prototype midscale brands that saw the greatest growth in their pipeline—our Hawthorn brand on the extended-stay side, our Wingate on the midscale side and our Trademark brand, which … has added 5,000 rooms to the pipeline and is now at 70 hotels. We see great opportunity for both organic and acquisition opportunities as they present themselves."

Keith Cline, president and CEO, La Quinta Holdings
"We are on track to complete the planned spinoff of our owned real-estate assets as CorePoint Lodging and execute the planned sale of La Quinta's franchise and management businesses to Wyndham Hotel Group. While we do not have much more detail to share at this point, I can say that the transaction is expected to close in the second quarter of 2018, subject to the approval of our stockholders, regulatory approvals and satisfaction of customary closing conditions."

Jonathan Halkyard, president and CEO, Extended Stay America
"There has been pretty strong demand to look at our assets and we've been selective in the types of deals that we would do. Selective not only in terms of the price, but also the partners that we're going to work with and their commitment to grow our network with additional sites after they buy our site. I think (the deal with Three Wall Capital) is a perfect example of this. Not only were we able to get a fair price for these assets from our shareholders, but we'll have a great partner who we expect will continue to build new Extended Stay hotels. … We do have a number of potential transactions that are right now at various stages of negotiation. They have a similar flavor to the Three Wall transaction both in terms of the number of hotels, the types of markets and the commitment of these partners to develop additional Extended Stay hotels.

"You probably recall from our launch of the 2.0 strategy about a year-and-a-half ago that we indicated that we would potentially sell about 150 hotels and re-franchise them over a three-year period. So, let's say 50 per year. And I think at our present course and speed, I think that's still a very good assumption. We've completed the sale of 25 hotels now and I expect that there will be more this year, but there's not going to be 100 hotels in 2018 that will sell."

Pat Pacious, president and CEO, Choice Hotels International
"When we look at M&A, we do look for opportunities from a tuck-in perspective. WoodSpring is a great example of that where we bring a fantastic growing brand onto our platform that fits nicely into that segment and really allows us to bring the distribution power that we bring, that marketing and reservations activity, the technology, to these owners and help them improve both their same-store sales and their return on investment."

Tom Baltimore, president and CEO, Park Hotels & Resorts
On the sale of seven Hilton hotels in the United Kingdom to Starwood Capital Group for £135 million ($187.7 million): "The portfolio in the U.K. was a very complex transaction with a very seasoned counterparty and required some structuring issues to manage around. We worked in partnership and aggressively to get that completed.

"Since our last quarterly call, we have sold a total of 12 non-core hotels in four separate transactions, including nine international assets accounting for approximately $379 million of gross proceeds at an average cap rate of 5.5% when accounting for anticipated capital expenditures, or 15.3 times 2017 projected EBITDA, with the potential for another hotel sale closing over the next several weeks. Our expected (capital expenditure) savings on these 12 hotels is estimated to be approximately $132 million over the next few years. Excluding CapEx, deal metrics were in a multiple of 11.3x and a cap rate of 7.4%, respectively.

"Overall, our capital recycling efforts have meaningfully upgraded the quality of our portfolio. All said and done, we have just cut our international exposure by nearly 310 basis points to just 1.2% of total (earnings before interest, taxes, depreciation and amortization). We will have improved average (revenue per available room) for our portfolio by $6 to $169, while eliminating more than $132 million of deferred maintenance CapEx."

James Risoleo, president and CEO, Host Hotels & Resorts
"With our pending acquisition of three fantastic Hyatt (Hotels Corporation) properties, we are executing on the external growth part of our strategy to begin the year. We are under contract to purchase a $1- billion portfolio consisting of: two resort properties, the 301-room Andaz Maui and 454-room Hyatt Regency Coconut Point; and one large City Center hotel, the 668-room Grand Hyatt San Francisco in the heart of the city. We anticipate the deal will close in the first quarter, although it is possible it may fall too early in the second quarter.

"These hotels are exactly the type of assets we have been targeting. Resort and large city center properties, segments where the supply outlook for the next several years is anemic. They're also in markets where we believe the near-term growth is significantly stronger than our broader portfolio and the country as a whole. We believe Maui and San Francisco will be two of the fastest growing markets in the country over the next few years. Maui is benefiting from improved airlift and continued strong leisure demand, while San Francisco will continue to improve from the combination of continued tech and business demand as well as the completed expansion of the Moscone Center."

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"Additionally, we continue to be bullish on the West Coast of Florida, where Hyatt Regency Coconut Point is located, which should benefit in the near-term from displacement from the Caribbean and strong group and leisure demand. These three properties are nothing short of spectacular.

"In addition to supportive market fundamentals, we believe there are several initiatives we can implement to enhance value, once these properties are plugged into our enterprise analytics and asset-management platform. These will include time and motion studies, food and beverage re-concepting and benchmarking with other Host assets in the respective markets."

Justin Knight, president and CEO, Apple Hospitality REIT
"Since the beginning of the fourth quarter, we acquired a total of five hotels for a combined purchase price of approximately $168 million, expanding our geographic footprint and further exposing the portfolio to diverse demand generators. Each of these acquisitions is consistent with our strategy of (acquiring) high quality, select-service hotels in strong markets.

"We have two additional hotels under contract with anticipated closings later in 2018, a Hampton Inn & Suites in Phoenix and a Home2 Suites in Orlando. Similar to our other new-build hotel acquisitions, we entered into fix-priced contracts with trusted developers for these projects prior to construction, which in a rising construction cost environment add additional value and acquisition. Although the acquisition market remains tight, we continually underwrite hotels that would be a strong fit for our portfolio."

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"In 2017, the company completed the opportunistic disposition of two (assets), the 224-room Hilton in Dallas and the 316-room Marriott in Fairfax, Virginia, further strengthening our concentration in the select-service segment of the industry. We will continue to closely monitor the profitability of our hotels, market conditions and capital requirements and seek disposition opportunities where we feel pricing is appropriate and proceeds can be redeployed into assets which better fit our long-term strategy."

Raymond Martz, EVP and CFO, Pebblebrook Hotel Trust
"I would say that we are beginning to look at acquisitions. I don't know whether we'll be successful this year. I don't know how aggressive we'll be. I don't anticipate we'll be particularly aggressive. But we do feel a little bit more comfortable on the acquisition side given the movement of our stock valuation closer to or into our (net asset value) range. And … as it relates to our NAV range, we've gone through our typical quarterly re-evaluation. And at this point in time there is no change to the range of between $36.50 and $41 for the NAV of the portfolio."

Douglas Kessler, president and CEO, Ashford Hospitality Trust
"The few investment opportunities we saw in the market, in many cases, seemed overpriced to us and did not achieve various financial metrics or share price accretion goals. We do not grow for growth's sake. Instead, we seek to achieve growth that is accretive to shareholder returns.

"Looking ahead into 2018, we're beginning to see more investment opportunities with a growing pipeline of deals sitting in the market. However, it still remains a competitively bid market. Therefore, you should expect us to continue being selective and disciplined on deals as we balance expected returns, underwritten growth and our cost of capital.

"At the same time as part of our strategy, we will continue to be financially calibrated in our decision to sell hotels. Factors that go into our decision are items such as RevPAR and growth, future CapEx spend and (return on investment), debt metrics and loan release provisions, net proceeds, redeployment opportunities and the overall impact on EBITDA."

Mike Barnello, president and CEO, LaSalle Hotel Properties
"In 2017, we've sold five assets at great prices, which further bolstered our solid balance sheet. With approximately $1 billion of investment capacity and $570 million of authorized share buyback capacity, we remain in an excellent position to pivot in either direction. While the macro environment remains quite strong, the uncertainty around fundamental performance in our markets has forced us to be patient for the time being.

"As we approach our company's 20th birthday, we're eager to continue to grow upon our best-in-class track record of asset management, risk management and hopefully, return on that invested capital."

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In regards to a potential buyback on shares and its valuation: "Those are all things that we do look at if we were making more of a binary decision … in terms of what to do with cash. It would be a little simpler, it might be—if we are looking at buying a hotel, I'm making these numbers up of course, but if the hotel is trading at a five cap and the stock was trading at seven or eight cap. Then it would appear to be more attractive to purchase the stock at a much better cap rate.

"Now there are always examples that refute that, if in fact there is a hotel that has whatever cap rate it has, but we feel strongly that with some moves that we're comfortable with, we can change around and move that five cap to a nine, 10, 11 cap et cetera through renovation, management change, brand change, meeting space addition, et cetera then that's a different story. But most implicitly those are the things that we're looking at.

"But all the other things are in play as well as where are we at the moment, what are the trend lines looking at the next six months and a year et cetera as well as what—obviously what the price is."

Richard Stockton, president and CEO, Ashford Hospitality Prime
"In November we also announced that we completed the sale of our Marriott Plano Legacy hotel in Plano, Texas, for $104 million, which represented an attractive all-in cap rate of 7.7%. Additionally, we announced that we have begun marketing for sale our Renaissance Tampa Hotel in Tampa, Florida, and we are seeing strong interest in the property. We have also made significant progress in our investment strategy. And in mid-February, we announced an agreement to acquire the 266-room Ritz-Carlton Sarasota for $171 million. This high-quality luxury resort property is located in a popular growing market on the Florida Gulf Coast. With RevPAR of $284 in 2017 and strong cash flow, this acquisition will increase our overall portfolio RevPAR. And we believe (this) will be a very attractive acquisition for our shareholders. The initial EBITDA yield is 7.8% and we expect it to stabilize at 9.5%.

"We have been pretty pleased with what we have been seeing in terms of disposition market. There—I think as you have heard from other lodging REITs—there is a lot of inventory out there on the acquisition side. So we are finding that there is a fair amount of interest in our property that's on the market currently. And we feel like once we ultimately announce that sale it will reflect a fully marketed process that has achieved the best possible price. So it's a good time if I could be a seller, because the relative lack of competition that's out there I think in terms of products."

Mark Hoplamazian, president and CEO, Hyatt Hotels Corporation
"Our final lever to unlock shareholder value is optimize capital deployment. This lever has long been an area of focus for Hyatt and includes the substantial asset recycling we have successfully executed, which has facilitated the expansion of our traditional hotel management business into markets where we were under-represented. It has also been the catalyst for our entry into new lines of business such as our investment in Playa Hotels & Resorts, which enabled our entry into the all-inclusive resort space with the launch of Hyatt Ziva and Hyatt Zilara brands."

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"In the past 12 months, we've brought even more discipline to this lever, increasing shareholder returns while maintaining alignment with our growth strategy. We've recognized the opportunity to reduce our overall asset intensity by monetizing certain high-value properties and using the proceeds to both underwrite new growth investments and return capital to shareholders, while still maintaining a substantial balance sheet that allows us to continue fueling the growth of our brand through ongoing asset recycling.

"As you know, we announced last quarter, our intent to sell $1.5 billion of our owned real estate assets by the end of 2020. And I am very pleased to say that we are making good progress on that commitment."

Ross Bierkan, president and CEO, RLJ Lodging Trust

“On the disposition front, we've already completed two sales and have an additional asset under contract, which will bring us in line with our initial goal of selling at least $300 million in assets. More importantly, the sales are at attractive multiples with an aggregate EBITDA on multiple north of 15 times. These sales include the Fairmont Copley Boston for $170 million and the opportunistic sale of the Embassy Suites Marlborough for $23.7 million, which closed post quarter end. The property under contract is one of the non-core assets we have previously identified, and we look forward to providing more details when it closes.

“With the completion of our initial goal, we are moving forward with a second round of dispositions. We are encouraged by the transaction landscape, heightened by our appetite and a lack of quality product available in the market are driving strong interest in several of our assets.

“As a result, we anticipate disposing of an additional $200 million to $400 million of hotels during 2018 that are a combination of targeted non-core assets and opportunistic sales. And as we continue to move forward with our marketing process, we remain disciplined and methodical in our approach in order to maximize proceeds.”

John Murray, president and COO, Hospitality Properties Trust
“We did not acquire or dispose of any assets during the fourth quarter. As previously noted in 2018, we expect to be more focused on renovations and on acquisitions. Eighteen of the 20 hotels acquired in 2017 require significant renovations in addition to cyclical renovations of 53 comparable hotels in the portfolio. We expect to fund the majority of renovation capital spending from free cash flow.”