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Earnings Recaps

HPT: Capital committed to renovations in 2018

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Following a wave of acquisitions, Hospitality Properties Trust will invest in improving those properties in 2018 before moving on to buying more, executives said during a call to discuss first-quarter earnings.

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NEWTON, Massachusetts—Continuing with a strategy first outlined in late 2017, officials with Hospitality Properties Trust say they will largely be out of the acquisitions market in 2018 as they deploy capital for renovations instead of purchasing new properties.

During a call with analysts to discuss the company's first-quarter earnings, President and COO John Murray said this strategy is necessary to get the most out of the company's current portfolio.

"Nineteen of the 20 hotels acquired in 2017 require significant renovations, in addition to normally occurring, primarily soft-good renovations at over 50 hotels in the portfolio," he said. "We expect to fund the majority of renovations spending from (furniture, fixtures and equipment) reserves or free cash flow."

Asked by an analyst how the company's board feels about a recent dividend increase in light of the wave of capital investments and HPT's leverage level, CFO Mark Kleifges said they are "comfortable with dividend and leverage."

In April, HPT increased its quarterly dividend by $0.01 per share to $0.53.

"I'd call that a pretty modest increase," Kleifges said. "It's our seventh consecutive year with an increase, but our payout ratio remains low. … We retain between $200 million and $250 million in excess cash flow after payment of dividends that is used to fund our capital improvement program."

Clift transition

In the first quarter, HPT resolved a dispute with SBE Entertainment Group related to its acquisition of Morgans Hotel Group, which HPT claimed violated its management agreement for the Clift hotel in San Francisco.

In a settlement reached in March, HPT terminated the Morgans lease agreement and rebranded the property as The Clift Royal Sonesta Hotel, under its management agreement with Royal Sonesta. HPT and Sonesta International Hotels Corporation are both part of The RMR Group.

Asked by an analyst if the company had considered working with other brands on the Clift property, Murray said that was reviewed by the company's independent trustees. He said the close relationship with Sonesta made it easier to get a deal done with the Clift, given the various complicating factors.

"In the end, though, because of the duration and magnitude of the required renovations and because of the nature of the seven different union agreements, (it was decided) the best outcome for shareholders was to move that to Sonesta rather than try to work out a management agreement where it would be held up over those issues," he said.

Murray described costs related to the Morgans settlement as "very minimal," and he ultimately expects to invest roughly $60 million in renovations at the property.

Q1 performance

For the quarter, comparable hotel revenue per available room increased 2% year over year to $91.63, and net income for the quarter jumped to $80.2 million in 2018 from $25.8 million in 2017.

Murray said he is encouraged by the quarter, which is typically HPT's weakest for the year, and macroeconomic trends. But he said the company would not revise up it's full-year RevPAR guidance from a range of 1% to 2% growth, in part because HPT was already more optimistic for the year than some other hotel REITs.

As of press time, HPT's stock was trading at $27.25 a share, a 9.3% year-to-date drop. The Baird/STR Hotel Stock Index was down 0.2% for the same period.