

## Earnings Recaps

# LaSalle more optimistic, but door still open for deal

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Officials with LaSalle Hotels Properties struck a more optimistic tone in their latest earnings call to discuss a start to 2018 that exceeded their expectations. And while they provided no timetable on a decision, they said the company is still considering a buyout offer from Pebblebrook Hotel Trust.



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BETHESDA, Maryland—Executives with LaSalle Hotel Properties were decidedly more positive during a [first-quarter earnings](#) call Thursday than they were during the company’s fourth-quarter call in February. President and CEO Michael Barnello said that newfound optimism was rooted largely in a turnaround in urban markets.

A rebound of several key markets, most notably New York, was fueled by an increase in business and international travel, which bodes well for the company’s portfolio of hotels in large urban centers, he said.

A performance upswing in several key urban markets “was bolstered by corporate and international

travel,” Barnello said. “And our portfolio of hotels is well-positioned to capitalize on this strength.”

What’s still unclear, though, is what LaSalle’s executives and board of directors will ultimately decide in regard to a pending [purchase offer from fellow hotel real estate investment trust Pebblebrook Hotel Trust](#). In late April, [Pebblebrook offered \\$32.49 per share](#), which would be paid to LaSalle shareholders via a combination of Pebblebrook stock and cash.

While LaSalle officials [rejected Pebblebrook’s initial all-stock offer](#) of \$30 per share in March, Barnello left the door open for a Pebblebrook deal in his comments to analysts, while also noting he’s optimistic about his company’s internal growth prospects.

“We’re pleased that Pebblebrook sees the value in our portfolio, and we understand we need to do a better job ensuring other stakeholders see the value that we see,” he said, noting the company is coming out of a “period of integration and transitions” and has considerable upside following a wave of renovations.

Barnello indicated the company and its board continue to analyze the Pebblebrook offer.

“Our management team and our board are pleased with the portfolio we’ve established, the value we know we can achieve in the future,” he said. “As this quarter illustrates, we’ve got a lot of great momentum. With that said, the LaSalle board takes its fiduciary duty and responsibility to shareholders very seriously and is open-minded and committed to acting in the best interest of LaSalle shareholders. The board will continue to work to enhance shareholder value by any means.”

Quick reaction from some industry analysts seemed to indicate that LaSalle’s newfound optimism and the outstanding buyout offer might be related. In a note to investors Thursday morning, Michael Bellisario, VP and equity research senior analyst at Baird, said he believes “this may be positioning by management to improve its negotiating power.”

Pressed by analysts during the earnings call on when LaSalle might respond to Pebblebrook’s current offer, which was announced publicly more than two weeks ago, Barnello declined to provide a timeline.

“Thank you for bringing up the question; we had not forgotten there was a proposal outstanding,” he said. “We’re working on it. The board is focused on maximizing value for shareholders, and when they are ready and we are ready, we’ll certainly have a response. But it’s just too early to give a timeline.”

### Reasons for optimism

Much of LaSalle’s earlier pessimism was centered around expectations of poor supply-demand dynamics going forward, but Barnello said he now has reason to feel that the strength of business and international travel could be enough to offset supply growth in major markets.

Several markets in particular provide significant upside, he said, headlined by New York, San Francisco and Key West, Florida.

“New York had its best quarter in five years ... and it was an unaffected quarter,” he said. “It’s not like there was FEMA business or any kind of side story.”

He noted corporate and international figures had looked weak through the first two months of 2018, ahead of the company’s fourth-quarter earnings call, but saw a significant rebound almost immediately after that call in March and April.

“The fact that they came back stronger is encouraging,” Barnello said. “Is it a result of the tax cuts or is it some international policy? We don’t really know. It’s hard to put your finger on it, but all those things came together.”

### Continued roadblocks

Some of the factors that set the more pessimistic tone for LaSalle earlier in the year remain in place, including integration issues across LaSalle’s nine Kimpton Hotels & Restaurants managed properties, which are transitioning to InterContinental Hotels Group’s systems. Seven of LaSalle’s nine Kimpton properties are located in the Washington, D.C., market, which was already dealing with difficult year-over-year comparisons related to the 2017 presidential inauguration.

“The guys at Kimpton are working hard to get this nailed down,” he said. “They’re well-intentioned, but it’s taking a lot longer than everybody anticipated to get the systems to where there’s the same level of transparency and distribution reach that everybody was hoping for.”

LaSalle officials said the Kimpton integration issues had a roughly \$2-million negative impact across the portfolio.

Ultimately, the company opted to revise up its full-year 2018 revenue per available room guidance, but still expects a contraction of full-portfolio RevPAR figures (-1% to -0.5%). The company originally projected a 2% RevPAR decline for the full year.

The company also followed through on plans to [cut its quarterly dividend](#), despite stronger-than-expected Q1 performance.

### Q1 performance

RevPAR across LaSalle’s portfolio fell 7.6% year over year for Q1 to \$165.23, according to the company’s [Q1 news release](#). The company saw adjusted earnings before interest, taxes, depreciation and amortization of \$47.6 million, down 23% year over year, and a net loss for the quarter of \$11.1 million.

As of publication, LaSalle’s stock was trading at \$31.10 a share, a year-to-date increase of 10.8%. The [Baird/STR Hotel Stock Index](#) was up 0.6% for the same period.

