

## Earnings Recaps

# RLJ Lodging to build on momentum gained in Q1

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Performance during the first quarter turned out better than expected for RLJ Lodging Trust, executives said, and the company hopes to take advantage of these promising conditions in selling off non-core assets.



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BETHESDA, Maryland—Stronger corporate and leisure demand helped RLJ Lodging Trust’s portfolio perform better than forecasted, executives said during the company’s [first-quarter earnings](#) call.

Positive momentum in the United States economy, higher consumer confidence and the recent tax reforms are boosting corporate spending, which in turn improves lodging demand, President and CEO Ross Bierkan said.

Despite the Easter holiday shift and a difficult year-over-year comparison because of the presidential inauguration, industry revenue per available room grew by 3.5%, he said. Transient RevPAR was up 3.9% for the industry, he said, and midweek transient grew by more than 3% as well.

RLJ Lodging’s operating metrics exceeded previous guidance, as RevPAR only declined by 0.7%,

Bierkan said. Discounting difficult year-over-year comparisons from the Super Bowl in Houston, the inauguration and property renovation displacement, RevPAR would have been 1.7% higher in the first quarter, he said.

As of press time, RLJ Lodging's stock was trading at \$22.10, down 1.3% year to date. The [Baird/STR Hotel Stock Index](#) was up 0.6% for the same time period.

### Changing leadership

After nearly two decades with RLJ Lodging, Bierkan announced he will retire this August.

"It has been a great honor and privilege to have had the opportunity to be part of this incredible and dynamic organization from day one," he said. "RLJ has matured from a small private investment vehicle to a public company with over \$6 billion in assets."

EVP, CFO and COO Leslie Hale [will take over as CEO](#). Bierkan said Hale intimately knows the business and strategy, and will bring experience and leadership skills to successfully guide RLJ into the future.

Hale praised Bierkan in her comments, calling him one of the original architects of the company's investment strategy.

"I know that I speak for everyone at our company when I say that we greatly appreciate his dedicated service and wish him well in his retirement and future endeavors," she said.

Hale said she is humbled and excited by the opportunity to lead "an amazing organization" with a talented group of individuals.

### Portfolio management

RLJ Lodging [sold two legacy FelCor Lodging Trust assets](#) in the first quarter for a combined \$119.2 million, Bierkan said, bringing the total of hotels sold since [the merger closed](#) to three, for a combined price of nearly \$300 million. During the first quarter, RLJ Lodging sold the 229-room Embassy Suites Boston – Marlborough for \$23.7 million in February and then the 364-room Sheraton Philadelphia Society Hill Hotel for \$95.5 million in March.

The company added value to the sale of the Sheraton in Philadelphia by leveraging its relationships to unencumber the property from management, which created an opportunity to upbrand the property within the Marriott family, he said.

"Our ability to secure an attractive valuation beyond simply capitalizing the trailing cash flows is a great example of our thoughtful approach to driving incremental value to the non-core assets as we bring them to market," Bierkan said.

He said he is encouraged by the transaction landscape, which is showing ample liquidity, and a lack of quality products on the market, which is driving up interest in RLJ Lodging's assets. As a result, the company's [disposition pipeline](#) remains active, he said, and RLJ is on pace to sell its remaining non-core assets by the first quarter of 2019. The company anticipates the disposition of a combination of its non-core assets and opportunistic sales to generate incrementally \$200 million to \$400 million in proceeds in 2018, he said.

The funds from these sales will primarily go toward the reduction of debt, Bierkan said. The company has already paid down \$300 million of its \$500 million debt reduction goal, which has brought its leverage in line with its overall target level, he said.

"As we move forward with the marketing process, we'll remain disciplined and methodical in our approach to maximize proceeds," he said.

Despite the property's performance, RLJ Lodging plans to sell the Vinoy Renaissance St. Petersburg Resort & Golf Club, Bierkan said.

"We simply don't do resorts," he said. "It's a great asset, and it's ramping tremendously this year. So, it's with a heavy heart in some ways that we're going to say goodbye to it, because it is going to contribute to our growth this year, but it is simply not what we do."

The appetite for resorts is promising, Bierkan said, and he feels good about the opportunity to market the asset.

The Knickerbocker Hotel is a special asset in a bull's-eye location that requires a bespoke process, he said.

"We think creating a little bit of exclusivity around it is the right way to go," he said.

RLJ Lodging will reinvest \$130 million to \$140 million in 17 of its hotels this year, Hale said, and it has used \$30 million of that during the first quarter. The estimated RevPAR disruption of the properties under renovation during the first quarter was 1%, consistent with expectations, she said. The renovation work is expected to create approximately 1% of RevPAR disruption for the full year, she said.

