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Host Hotels & Resorts' (HST) CEO Jim Risoleo on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.513 beats by $0.03 | Revenue of $1.26B (-2.85% Y/Y) beats by $6.65M

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Host Hotels & Resorts, Inc. (NYSE:HST) Q3 2019 Earnings Conference Call November 6, 2019 8:30 AM ET

Company Participants

Tejal Engman – Vice President

Jim Risoleo – President and Chief Executive Officer

Michael Bluhm – Chief Financial Officer

Conference Call Participants

Anthony Powell – Barclays

Michael Bellisario – Baird

Bill Crow – Raymond James

Rich Hightower – Evercore

Chris Woronka – Deutsche Bank

Smedes Rose – Citi

Robin Farley – UBS

David Bragg – Green Street Advisors

Operator

Good day, and welcome to the Host Hotels & Resorts Incorporated Third Quarter 2019 Earnings Conference Call. Today's conference is being recorded. At this time, it is now my pleasure to turn today's call over to Ms. Tejal Engman, Vice President. Please go ahead, ma'am.

Tejal Engman

Thanks, Carrie. Good morning, everyone. Welcome to the Host Hotels & Resorts third quarter 2019 earnings call. Before we begin, I'd like to remind everyone that many of the comments made today are considered to be forward-looking statements under federal securities laws. As described in our filings with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed and we are not obligated to publicly update or revise these forward-looking statements.

In addition, on today's call, we will discuss certain non-GAAP financial information, such as FFO, adjusted EBITDAre and comparable hotel results. You can find this information, together with reconciliations to the most directly comparable GAAP information, in today's earnings press release, in our 8-K filed with the SEC, and the supplemental financial information on our website at hosthotels.com.

This morning Jim Risoleo, our President and Chief Executive Officer, will provide an overview of our third quarter results and update on our capital allocation activities and our outlook for 2019. Michael Bluhm our Chief Financial Officer will then provide detailed commentary on our third quarter performance, our capital position and our guidance for 2019.

Following their remarks, we will be available to respond to your questions. And now, I'd like to turn the call over to Jim.

Jim Risoleo

Thank you, Tejal, and thanks everyone for joining us this morning. We remain focused on creating value for our shareholders on multiple fronts in the third quarter, which exceeded consensus expectations for adjusted EBITDAre and adjusted FFO per diluted share. We grew comparable hotel Total RevPAR by 120 basis points in the third quarter and delivered our strongest comparable Total RevPAR and RevPAR performance year-to-date.

We continued to successfully execute our capital allocation strategy by completing $565 million of asset sales and repurchasing $200 million of stock during the third quarter and have sold an additional $297 million of assets subsequent to quarter end. We strengthened our balance sheet by refinancing $650 million of Series Z and B bonds, with the first green bond issuance in the lodging industry and achieved the lowest effective bond pricing in the company's history.

In addition, we increased the capacity of our revolving credit in term loan facility by $500 million to $2.5 billion. And finally, we made significant progress on our pipeline of ROI projects, which we expect will unlock embedded value at several of our iconic and irreplaceable assets.

I will now discuss our comparable revenue performance, revised 2019 operational outlook, capital allocation and our pipeline of ROI projects. Michael will detail our third quarter comparable EBITDA margin performance, recap our balance sheet improvements and provide the specifics on our updated 2019 guidance.

Beginning with our third quarter revenue performance, we drove comparable total RevPAR 120 basis points higher year-over-year through relatively strong growth in food and beverage as well as other revenues. While our comparable RevPAR declined by 20 basis points, it solidly outperformed STR's 80 basis point decline for luxury and upper upscale in the top 22 Host markets. Notably, our comparable RevPAR was impacted by an estimated 50 basis points of renovation disruption related to the Marriott transformational capital program. Adjusting for which, comparable RevPAR grew by 30 basis points year-over-year.

Moreover, the tropical storms and hurricanes experienced during the quarter displaced comparable room revenue by approximately $1.2 million which impacted comparable RevPAR by another 20 basis points. Third quarter hotel occupancy was flat year-over-year, while ADR decreased by 20 basis points, primarily due to a decline in the association group business driven by a weak citywide calendar in markets such as Boston, Seattle and San Diego.

We worked closely with our managers to partially mitigate this anticipated decline by growing our corporate group business by 8.3%. Additionally, strong contribution from our corporate group helped banquet and audio-visual revenues, which grew 3.8%. Third quarter transient revenue grew 70 basis points, driven by 2.8% growth in room nights due to leisure demand, bolstered by significant loyalty program redemptions.

Loyalty program redemption revenues grew 7% driven by growth in both room nights and average rate. Our properties benefited from a solid increase in redemptions in the Florida Gulf Coast, Los Angeles and Orange County markets. We continue to realize improvements quarter-after-quarter from Bonvoy, which now has 137 million members and continues to grow rapidly.

Growth in leisure more than offset the continued weakness in business transient, which reflects greater business cautiousness. The continued uncertainty of a long-term U.S. China trade deal, domestic political turbulence and decelerating global economic conditions are impacting business investment. Full year expectations for U.S. non-residential fixed investment have declined by 140 basis points since the beginning of the year and currently stand at 2.7%, which would represent the slowest pace of business investment growth since 2016.

As discussed last quarter, we anticipated much of the revenue-led softness that the lodging industry experienced in the third quarter. As our expectations for business transient revenues have moderated further due to continuing macro uncertainties, we have revised our outlook for full year comparable constant dollar RevPAR growth to range between down 25 basis points to down 1%.

We therefore expect comparable EBITDA margins to be down 20 basis points at the low end and up 10 basis points on the high end of our guidance. These assumptions result in full year forecasted adjusted EBITDAre of $1.505 billion to $1.530 billion and adjusted FFO per diluted share of $1.75 to $1.78.

At the midpoint, our new adjusted FFO per diluted share is $0.01 higher than our prior forecast, primarily due to our share repurchases. Keep in mind that our revised guidance now includes a reduction of $2 million of forecasted EBITDA for the sale of Hyatt Regency Cambridge and the Sheraton San Diego and a reduction of approximately $2.5 million for the impact of the tropical storms and hurricanes in the third quarter. Michael will provide further detail on our EBITDA guidance in his remarks.

Shifting to total group revenue pace, as I had discussed last quarter, our full year 2009 total group revenue pace is essentially flat, coming off a record year for group in 2018. Our fourth quarter total group revenue pace is up 1.1% and we have approximately 99% of our group business booked for 2019. 2020 is shaping up to be a better year for group business, with total group revenue pace nearly 4% ahead of the same time last year and with more than 65% of our rooms on the books. While we expect to see continued pressure on business transient, if the current macro uncertainty prevails, having a healthy total group revenue pace and group business on the books provides us with a solid base heading into next year.

Considering the current macro environment, our managers continue to focus on group revenue pace. We hold monthly group pace discussions with both property management teams and senior sales leadership at the corporate level. We also provide feedback on implementing group campaigns and promotions to drive additional group demand and seller incentives to increase closure.

We believe these incentives have helped ensure a focus on additional group pickup. Moreover, the citywide convention calendar is more favorable for our portfolio in 2020 relative to this year. Markets with better citywide demand in 2020 include Boston, Washington DC, Los Angeles, Chicago, Denver, Phoenix and San Diego.

Additionally, Miami is hosting Super Bowl 54 and is expected to outperform the industry. We expect notable year-over-year declines in citywide in Atlanta, which hosted the Super Bowl this year, San Francisco and Philadelphia.

As to capital allocation, we closed on the previously announced sale of eight assets for a total of $565 million during the third quarter and sold two additional assets, the Hyatt Regency Cambridge and the Sheraton San Diego for a total of $297 million subsequent to quarter end.

In aggregate, we have sold approximately $1.3 billion of low RevPAR capital-intensive assets this year. After taking into consideration the estimated capital we would have spent on these assets, the combined EBITDA multiple and cap rate on trailing 12-month results would be 14.1 times and 6.3% respectively.

We continue to take advantage of the current market conditions and execute on our strategy to refine our portfolio of iconic and irreplaceable hotels in key markets with strong demand generators and high revenue generation, while opportunistically by divesting a lower RevPAR, higher capital expenditure assets.

On the share repurchase front, we bought back $200 million of stock at an average price of $16.51 during the third quarter. Our buybacks through the third quarter totaled $400 million or 23 million shares on a year-to-date basis at an average price of $17.36. We have bought back an additional $14 million of stock subsequent to quarter end and have approximately $586 million of capacity remaining.

We have been actively investing in value enhancing ROI projects across our portfolio. We are constructing a 165 key premium select service AC by Marriott Hotel on excess surface parking at the Westin Kierland in Phoenix. We expect to spend a total of approximately $36 million on this project, which remains on budget and on schedule to complete construction by late May 2020 and to open around mid year.

We have also begun site development on 19 villas at Andaz Maui, which will be added to the 11 villas owned or rented within our hotel program. The existing villas in the rental program achieved a RevPAR of approximately $1,700 and exhibit strong demand throughout the year. We expect to invest a total of approximately $52 million and to complete construction by March 2021.

This expansion was not a part of our underwriting when we acquired the asset last year and we are pleased to be capitalizing on another opportunity to create value for our shareholders. Lastly, we have continued to focus on enhancing the value and profitability of our portfolio through utility and water saving ROI projects, an important part of our award-winning and industry-leading corporate responsibility program. Year-to-date, we have underwritten and approved over $19 million to be invested in energy and water savings sustainability projects, and over the four-year period ending 2018, we completed over 650 projects with sustainability attributes totaling $210 million. We recently published our second corporate responsibility report available on our website where you can see additional information on this important program.

In aggregate, we expect to invest $107 million in these value creation projects combined and to generate stabilized cash-on-cash returns in the range of 11% to 13%. Now, to an update on the 1 Hotel South Beach, which we acquired earlier this year. The hotel is performing better than our underwriting on EBITDA and the beach club ROI project is well underway with completion anticipated by year end. We expect to spend approximately $7 million and achieve a low teens stabilized yield on cost.

Finally, we have made significant progress on the Marriott transformational capital program, with work underway or expected to be completed on 13 of the 17 properties by year end. As we have previously disclosed, three of four Marriott transformational capital projects, Coronado Island Marriott, New York Marriott Downtown and the San Francisco Marriott Marquis are now complete with the final project the Santa Clara Marriott completing in another week or so.

An additional nine projects are underway. Importantly, we are close to completing nearly 40% of the total estimated spend by year end and are currently under budget for the program. The timing of the Marriott transformational capital program is highly beneficial to our shareholders. Completing these renovations in a low RevPAR growth environment minimizes the impact of the disruption and leaves us well positioned to achieve meaningful RevPAR index gains and accelerate EBITDA growth at stabilization and when RevPAR growth improves.

Additionally, we are benefiting from operating profit guarantees that support EBITDA in a low RevPAR growth environment as we negotiated for protection for the disruption associated with the renovation spend. Moreover, we have negotiated increased priority returns on our investment, which will reduce incentive management fees and further boost our long-term EBITDA growth.

Overall, we are well positioned in the currently challenging operating environment. Heading into next year, both the citywide convention calendar and the holiday calendar shift in our favor. Importantly, with leverage at 1.7 times net debt to adjusted EBITDA at quarter end, our investment grade balance sheet is in its best shape ever and we remain laser-focused on driving near and long-term value creation for our shareholders.

With that, I will turn the call over to Michael.

Michael Bluhm

Thank you, Jim, and good morning, everyone. We delivered adjusted EBITDAre of $312 million and adjusted FFO per diluted share of $0.35 this quarter. Adjusted EBITDAre was approximately $12 million higher than we expected, primarily due to a shift in the timing of approximately $9.5 million of corporate and other expenses from the third quarter to the fourth quarter. These were expenses related to the recent IT upgrade investments, consultancy fees as well as the office move, which is now taking place in the fourth quarter.

Note that certain costs related to our office move will be reclassified as an impairment in the fourth quarter and therefore added back to EBITDA. Finally, interest income in the third quarter exceeded our expectations by approximately $2 million. Comparable hotel EBITDA margins in the third quarter declined by 85 basis points. To put that in context, the 20 basis point decline in comparable RevPAR will typically result in a greater than 100 basis point decline in comparable EBITDA margins, assuming normal expense growth.

Moreover, the year-over-year comparable EBITDA margin comparison was negatively impacted by 31 basis points from a one-time benefit received from the sale of Marriott centralized purchasing company in the third quarter of 2018. Finally, the receipt of approximately $2 million of operating profit guarantees from Marriott benefited comparable hotel EBITDA margins by 20 basis points.

Overall, expense growth is primarily driven by increased wage and benefit expense, which as anticipated from faster in the third quarter than in the first and the second quarters. We collaborate closely with our managers on a variety of internal initiatives to drive ancillary revenue growth, improved productivity and increased operating costs.

For example, food costs improved by 40 basis points and controllable expense growth was held at sub-inflation levels. Such initiatives serve to partially offset the increases in wages and benefits this quarter, which continue to accelerate in this low unemployment environment. We estimate that 60% of our margin outperformance this quarter was driven by internal initiatives.

Whereas approximately 40% of our margin outperformance is driven by benefits related to the Marriott Starwood integration. These include reduced fees related to loyalty and rewards program and lower group and transient travel agent commissions as Marriott continues to use its increased scale to improve programs and combine systems to lower charge-out rates to its owners.

While Jim detailed our comparable RevPAR performance by segment, let me provide additional color on comparable RevPAR and market basis. Our best performing domestic markets this quarter was in New Orleans, Miami, the Florida Gulf Coast, Maui and Philadelphia. We achieved RevPAR increases ranging from 4% to 17.6%. Our worst performing market this quarter was Jacksonville, where Amelia Island was evacuated and there was forced hotel closure during hurricane Dorian as well as New York, Orlando, Seattle and San Francisco. Overall, as Jim mentioned, our third quarter comparable RevPAR has outperformed STR's luxury and upper upscale segments in the top 22 Host markets by 60 basis points.

Looking at 2020, we feel optimistic about the group business in several of our key markets. Beginning with Miami, we expect special events such as the Super Bowl and the return of the Ultra Music Festival at Bayfront Park helped create compression in the first half of the year. In Phoenix, we have a strong 2020 group booking pace and the Phoenician continues to outperform the market and its competitive set through strong leisure occupancy and ADR growth.

Washington DC also had a stronger citywide calendar next year with one additional event and room nights up by double digits. But it is an election year which may impact days and session and overall demand.

The Florida Gulf Coast has a strong 2020 group pace, while the supply of new direct competitors is not a major factor. The Don CeSar and the Ritz Carlton, Naples are therefore likely to continue to outperform the market next year. While Los Angeles will still feel the impact of supply absorption, citywides are expected to be up next year and our properties are attracting a healthy group pace.

In Denver, we also have a solid group pace and expect the supply to accelerate. And finally, Boston is also gearing up for better citywide next year.

As Jim mentioned, we're pleased to be going into 2020 with a solid base of group business on the books, particularly as we expect to see continued pressure on business transient as the current macro uncertainty prevails.

Moving on to the balance sheet, we achieved several milestones in the third quarter and in October. To begin with, we achieved an upgrade of our corporate credit rating BBB minus from BB plus by S&P Global ratings. We refinanced our Series D and B bonds maturing in October 2021 and March 2022 respectively. By issuing the first green bond in the lodging industry with a coupon of [indiscernible], which is the lowest effective 10-year bond pricing in the company's history.

And as Jim mentioned on last quarter's call, we refinanced our two term loans totaling $1 billion and expanded our revolving credit facility by $500 million to $1.5 billion. In aggregate, we completed over $3 billion of bank financing and have capitalized on the low borrowing cost environment. We have extended our weighted average debt maturity from

3.7 years to 5.7 years and reduced our weighted average interest rate from 4.3% to 3.9%, with an appropriately balanced floating to fixed ratio of 26%. In addition, we have eliminated debt maturities until 2023, while maintaining a balanced pro forma debt maturity schedule with no more than approximately 7% of our debt as a percent of enterprise value maturing in any given year.

We ended the third quarter with $4.4 billion of total debt and $2 billion of cash. But subsequent to quarter end, we repaid our Series D and B bonds and completed $297 million of asset sales. As a result, our total debt is currently approximately $3.8 billion and our adjusted cash balance is approximately $1.6 billion, providing us with approximately $3 billion of liquidity, including the availability under our revolver.

At quarter end, our leverage ratio was approximately 1.7 times as calculated under the terms of our credit facility and it's slightly lower pro forma for the asset sales completed subsequent to quarter end. In addition to the $400 million of buybacks completed year-to-date, we recently paid a regular third quarter cash dividend of $0.20 per share, which represents a yield of approximately 5% on the current stock price.

Turning to guidance, let me take a few minutes to detail the assumptions underlying our 2019 guidance. To begin with, we continue to expect to receive a total of $23 million of operating profit guarantees from Marriott for both comp and non-comp transformational capital programs, with approximately $3 million in total to be received in the fourth quarter.

As Jim mentioned, we revised our comparable RevPAR guidance to a range of down 25 basis points to down 1%, indicating that we expect year-over-year RevPAR performance in the fourth quarter to be flat at the midpoint of our range. We expect the fourth quarter benefit from the lowest amount of renovation disruption in 2019 as well as a better December holiday calendar relative to 2018.

We expect comparable EBITDA margins to be down 20 basis points at the low end and up 10 basis points at the high end of our guidance, which essentially implies unchanged margins despite flexible RevPAR expectations. These assumptions result in a full year forecasted adjusted EBITDAre of $1.505 billion to $1.530 billion and adjusted FFO per share of $1.75 to $1.78.

We are revising our 2019 adjusted EBITDAre range to a new midpoint of approximately $1.518 billion, downward adjustment of $2 million from our previous guidance. The sales of the Hyatt Regency Cambridge and Sheraton San Diego, the tropical storms and hurricanes in the third quarter and the change in comparable RevPAR guidance range reduced adjusted EBITDAre by approximately $7 million at the midpoint. These were offset by approximately $5 million of lower corporate and other expenses in the fourth quarter as certain costs related to our office move will be reclassified as an impairment and therefore added back to EBITDA.

With regards to a run rate 2019 EBITDA, the net impact of our 2019 dispositions and acquisitions will lower our run rate by approximately $58 million, which includes an approximately $30 million impact from the sale of the Hyatt Regency Cambridge and the Sheraton San Diego, as well as the previously disclosed $27 million impact related to net asset sales completed in the first three quarters of the year.

To conclude, we are pleased to have delivered another quarter of successful capital allocation and to have further strengthened our balance sheet. We anticipate a much of the softness experienced by the lodging industry in the third quarter and are tightening our assumptions and guidance to reflect the incremental impact of continued macro uncertainty in the fourth quarter. We are well positioned for 2020 with a total group revenue pace of nearly 4% higher than the same time last year and with more than 65% of our rooms on the books.

With that, we'll now be happy to take questions. To ensure that we have time to address questions from as many of you as possible, please limit yourself to one question.

Question-and-Answer Session

Thank you. [Operator Instructions] And our first question will be from Anthony Powell from Barclays.

Q - Anthony Powell

Hi, good morning, everyone.

Jim Risoleo

Good morning, Anthony.

Michael Bluhm

Good morning, Anthony.

Anthony Powell

Good morning. You mentioned that the Marriott capital plan is under budget and it seems to be going a bit faster than you originally guided to. Could you just update us on the total spend the cadence of the spend over the next couple of years and will there be less renovation disruption in 2021 relative to this year?

Michael Bluhm

Yes. So this is definitely going to be our biggest year of disruption, Anthony. For 2019, the CapEx spending curve associated with projects about $225 million. For 2020, it's about $200 million, and in 2021 it's $175 million. And when you sort of think about right sort of the operating profit guarantees and sort of a measurement of disruption in 2019 where we talked about it, we've got $23 million of operating profit guarantee that we have or will receive. In 2020, that number drops down to $16 million and then closes up to $19 million in 2021.

Anthony Powell

Got it, thanks. And you also mentioned that you're seeing more redemptions from Bonvoy. What's the redemption mix in your portfolio and to those redemption of revenues continue to increase in future years?

Michael Bluhm

Yes, look. I mean, I think you saw Marriott International talk about Bonvoy redemptions up 20% or something like that last quarter. I will tell you that we saw in our loyalty program of 7.1%, it was certainly a big strong contributor to the business, and particularly in a market where we really needed the transient to lean in, given the weak group calendar.

Michael Bluhm

The dollar impact was year-over-year was about $3 million top line.

Anthony Powell

All right, great. That's it from me, thank you.

Operator

Thank you. Our next question will be from Michael Bellisario with Baird.

Michael Bellisario

Good morning everyone.

Michael Bluhm

Good morning Mike.

Jim Risoleo

Good morning.

Michael Bellisario

How are you guys, if at all changing your revenue management strategies, heading into next year? And then how do the group pace numbers that you provided, how does that compare to same time last year?

Jim Risoleo

I wouldn't say that we're making any material change to our revenue management strategies Mike. We've said it's really a dynamic pricing model. And it's something we think about on a weekly basis quite frankly. I did mention in my comments that we're working very closely with our managers across our hotel portfolio both at the property level and at corporate to stay more keenly focused at this point in time on group, given the fact that we are still seeing some weakness in business, transient, travel. So nothing really different from the way we manage it before. Just a difference in focus, which changes from time to time.

Additionally, you asked the question of what is our group bookings going into 2020 this year relative to last year. Last year at this time we had about 62% of our business on the books, this year we are at 65%.

Michael Bluhm

Rich just to add to Jim’s comment, typically we would see sort of 60% to 65% towards the high end and make note that’s coming off of the record group year with five million group rooms nights.

Jim Risoleo

Yes. One other thing I would add is Marriott is rolling out the enhanced reservation system. And we’re working closely with them to really maximize revenue on a hotel-by-hotel basis by making certain that different room types, different room locations, different room categories are priced appropriately. It’s just one more lever that can be pulled to enhance revenue at each property.

Michael Bellisario

Thank you.

Operator

Thank you. Our next question will be from Bill Crow with Raymond James.

Bill Crow

Good morning everybody. Jim we’ve heard a lot of positive comments from not only your team, but others on the group pace for next year in certain markets. I think that’s all fine and good. But the problem this year has not really been group, it’s been leisure, it’s been business transient, it’s been inbound international, it’s been supply. I guess I’m just trying to get how much confidence you have based solely on this uptick that you think you’re going to see in a number of markets?

Jim Risoleo

Bill, we were faced with a very weak citywide calendar in 2019. And our under performance in Q3 was directly related to weakness in association group, which we anticipated. I think the number was down 4.3% for us in the quarter. So it did have a meaningful impact, 4.3% in room nights for us in the quarter on the group side of it.

You raised the issue of new supply. As we think about the business, obviously we think about our segments starting with through association, corporate group, business transient, leisure transient contract and then we always have supply to deal with as well. So you are correct in saying that supply has been a headwind, particularly in the top 25 markets where we are strongly represented in 22 of those 25 markets. I take great encouragement that we were able to handle the outperform STR in the third quarter in the top 22 market segments as related to upper upscale and luxury.

We actually picked up about 30 basis points in yield index in the quarter. So we're really focused on gaining market share and maximizing revenues through each category. When group isn't there, then we'll turn – when association group isn't there, we will turn to corporate group. When business transient isn't there, we will turn to leisure. Supply is going to tick along in 2020. But from our perspective, we see 2020 as the peak year for supply.

Bill Crow

That's helpful. If I could just follow-up with one other question, when you have these massive renovations that you're undertaking now completing, what has been your experience with TripAdvisor scores or other review scores? How hurt do they get and what do you do to kind of change the momentum once you reopen?

Jim Risoleo

Yes, of course, hotels in, let's say, not optimal condition, your TripAdvisor scores in ratings are going to be impacted. I think the example that I can point to that is from my perspective, I think, the poster child of what renovations can do for a property is the Phoenician. Prior to our renovation, the hotel was very tired. It hadn't had any investment for an extended period of time.

And in regards to the point where meeting planners just weren't even comfortable, taking groups to the property. Even though it's a great physical asset, great volumes over 600 rooms, great indoor meeting space, great outdoor meeting space, it had a spa which was underwhelming, it had a golf course which was under whelming. And by renovating that asset in a manner that we did, we've seen it turnaround and just outperform in an incredible way. And next year, the group pace of that property is up well and we're seeing very strong leisure bookings also.

So when a hotel is completely renovated, the TripAdvisor ratings and scores get wiped out and when it comes back online, it's re-rated at a higher level.

Bill Crow

Okay, thanks. I appreciate it.

Operator

Thank you. Our next question will be from Rich Hightower with Evercore.

Rich Hightower

Hey, good morning guys.

Jim Risoleo

Hi Rich.

Rich Hightower

So just a really quick question on 4Q guidance. If I'm doing the arithmetic correctly, it seems like the implied range there from top to bottom is something along the lines of negative 1.5% to positive 1.5%. So correct me if I'm wrong there, but if I'm not wrong, what would drive the low end versus the high end kind of given the number of days left in the year? And then I've got one follow-up after that.

Michael Bluhm

Yes, let's just correct the math a little bit. On the high end, it is 1%. On the low end, it's 1.6%. At the midpoint, it's flat.

Rich Hightower

Okay. So any qualitative factors kind of driving that range at least?

Michael Bluhm

Yes, look, I think, as Jim pointed out, I think the fourth quarter is setting up to be a nice setup, right? We're going into with 1.1% up under group pace. December is in particular with Hanukkah moving to the back half of the month, really creates a nice clean December. So I think we feel like – you don't necessarily need to believe a lot to get to that level, but nonetheless anyway.

Jim Risoleo

Yes, a couple of other – I will elaborate on that a bit, Rich. I referenced in my comments that we have 99% of our total group revenue pace on the books already, and that we saw a 1.1% pickup in total group revenue pace for Q4. Our Q4 bookings are currently standing at 94%. So we have a bit of room to fill in to really drive revenues at the properties in quarter four from a group perspective. We're hoping we would see another pickup in corporate group like we did in Q3 with the higher food and beverage spend.

Two other points with respect to Q4 to give us confidence in our numbers. Number one, it's going to be the lowest renovation disruption quarter from the Marriott transformational capital program. We're anticipating about 10 basis points in renovation disruption in Q4. And lastly, we are getting an extra week in December relative to where we were last year. Given the fact that Hanukkah is virtually on top of Christmas.

Rich Hightower

Okay, that's helpful. And then my follow-up here, if you take a step back, Host has sold something along the lines of $3 billion in assets over the past three years. I know some of that's opportunistic, some of that is part of sort of a targeted strategy of selling what you don't want to own into the next cycle and all that makes sense. But how far along do you think we are in that process and when do you sort of think we're going to have the team on the field that we want so to speak at the end of that process? Is there a way to sort of handicap that at this point in time?

Jim Risoleo

I would say, I think, we're very far along, Rich. I mean there were unique reasons why we elected to sell the Sheraton San Diego and the Hyatt Cambridge, which I'll come back and talk about in a minute, but if you look at some of the assets that we've sold, I would describe them as profitability challenged hotels. And that was really a focus on the assets that we sold in New York City, the 2Ws and the Westin Grand Central. We made a decision to exit for the most part all of our international assets and we sold our European JV position. You may recall, we also sold the JW Marriott, Mexico City, bringing in the coast to be much more of a U.S.-centric company. We have very little international exposure today, with three hotels in Brazil and two in Canada.

So the rest of the assets and opportunistic was the sale of the Marquis retail. A lot of the other assets were really those assets that were generating very low RevPAR in markets that we view is dynamic and had high CapEx needs. And I would tell you that, I think, the Sheraton San Diego falls right into that category. The Hyatt Cambridge doesn't, and we evaluated each of those hotels on a standalone basis taking into consideration likely future performance, CapEx needs of each property and derive the whole value, and we have one buyer for both of them. I'm not at liberty to disclose the buyer due to confidentiality in our documents, but we have one buyer for both hotels.

And what that allowed us to do was really to exit the Sheraton in San Diego where, as you know, we have three really terrific assets with the Manchester Grand Hyatt, which is 1,600 feet and the San Diego Marriott Marquis which is 1,300 rooms and Coronado Island Marriott. So we had keen insights into that market and really understand the dynamic of what makes that market tick in, where demand comes from and where demand goes into what properties.

Now Sheraton, I don't think we have another hotel in our portfolio like it from the perspective that it's a dysfunctional box in two towers and it's in a submarket location that I would say is probably third tier in San Diego. So as we think about it, that's probably the toughest asset that we had. We're happy to be able to exit that at what we consider to be a very fair price. The other hotel that we've talked about from time to time is the Sheraton in New York. So we continue to explore the market for that asset and look at other alternatives for that property, but in general, I think, we're in very good shape.

Rich Hightower

Awesome, thanks for that. Jim.

Operator

Thank you. Our next question will be from Chris Woronka with Deutsche Bank.

Chris Woronka

Hey, good morning guys.

Jim Risoleo

Good morning.

Chris Woronka

Good morning. One of the big surprises, I think, this year has been kind of the continuation and the strength of the out-of-room revenues, especially on the, I guess ancillary and fee side. Can you maybe share with us how impactful that's been relative to your initial expectations? And then, is there a tail to that? How long do some of those ancillary gains continue as we look out into the future?

Jim Risoleo

I think there are obviously a number of different components when we talk about ancillary revenues, Chris. And we've seen increases in all of them, and we're going to continue to drive them because we think it's really important that while you realize RevPAR is a marker for overall performance, total RevPAR is a very good indication of how you're running your hotels and really speaks a lot to profitability of the properties. So we continue to see pickups in food and beverage and AD revenues across the portfolio. We have better capture of cancellation fees now, not that cancellations are higher, but due to automated systems.

We are still continuing to see a ramp in spa and golf revenues. I would expect we'll continue to see that through the course of 2020 at the Phoenician, as I talked about it before, we've redone the golf course and redone the spa and it's really paying off. And as we think about the higher rated corporate group customer, they also bring a higher spend and bank what revenues. So those are areas that we're focused on. Obviously another area of ancillary revenues continues to be resort and destination fees. We are continuing to focus on greater capture at our properties, making certain that any fee that we're charging is transparent to the customer and that there is a solid value proposition received on a case-by-case basis.

Chris Woronka

Okay, great color. And just as a follow-up, it appears as if Marriott, you are based on our kind of analysis of all the numbers including your portfolio had some of their brands had lost share in the last couple of years maybe as a result of the integration, but now you know, starting with this quarter, certainly it looks like the gained relative share. Do you guys – is there a way for you guys to handicap that or underwrite that? And would you assume that the Marriott brands continue to gain relative share next year?

Jim Risoleo

Yes, I would hope so that they will continue to gain share. We gained 30 basis points in share in quarter three, and we're very excited about that actually. Marriott is working very hard to improve the Sheraton brand. I think they realized that they have an issue with Sheraton across the system, and they are also going to reinvent the W brand, which I think are probably the two laggards when it comes to market share for Marriott. So they are undertaking efforts to fix those two brands going forward.

I talked about Bonvoy, I talked about 137 million members. And what we've seen in terms of a pickup in redemptions, it's clearly going to be a big impact going forward. And I think it will help across the system with gains in market share. It just goes without saying now as the two programs are integrated, the SPG member now has access to all the Marriott properties and the all Marriott Rewards member now has access to all of the legacy Starwood assets. So we saw a pickup in our portfolio in the third quarter and let's see what happens next year.

Michael Bluhm

A couple of other quick data points. We saw direct booking channel go up 4% as well. And the other thing, and Jim touched on this in his comments, you know how we get a large percentage of our business with Marriott and Starwood in aggregate, and for us to outperform the top 25 markets, the top 22 markets so meaningfully, I think, really speaks to the effect that our operator in particular Marriott had done throughout the quarter.

Chris Woronka

Okay, very good. Thanks guys.

Operator

Thank you. Our next question will be from Smedes Rose with Citi.

Smedes Rose

Hi, thanks. I just wanted to go back on the dispositions. It sounded like you're towards the end of the program, but it would be interesting just to hear any thoughts you have on the current financing environment if there's been any changes there. And then just as a point of clarification, you mentioned a multiple of 14.1 times on the asset sales. Could you provide that multiple without including the CapEx that you would have invested into the properties that you continue to own them?

Jim Risoleo

Sure. I think it's 11.3 times, Smedes. And if you look in our supplement, on Page 33 we clearly lay out and we've done this quarter to quarter, we clearly lay out the methodology that we use in determining what the avoided CapEx is. It really is a component of our build-up to our whole value. We look at both the aggregate CapEx when we think about the reserves on the property as a marker for EBITDA and then we look at the ownerfunded CapEx as a marker for cap rate. Those amounts were discounted back over a 10-year time frame, which is the way we do all of our whole values utilizing a discount rate of 8%. So it's a real number, it's in the disclosure document.

Smedes Rose

Okay, great.

Jim Risoleo

I will let Michael talk about the financing markets.

Michael Bluhm

And then with respect to the financing markets, couple of observations. From the equity side, Jim has talked about before, private equity has been the marginal buyer today for the asset sales that we've done as well as sort of the market in general. They are sitting today with a record amount of dry powder. The debt capital markets, particularly the CMBS market continues to be wide hot, the financing, sort of the financing on strategic hotels has been talked about as a bit of a head scratcher, but super low debt yields, record low interest rates. As long as that market continues to hold up both in the conduit and single asset securitization market, I think, makes for a pretty healthy backdrop with respect to transaction activity.

Smedes Rose

Are you seeing any kind of increase in LTVs or…

Michael Bluhm

No, we haven't. But interestingly enough, sort of notwithstanding how the market has sort of slowed down, the CMBS market continues to hold pretty tightly as the sort of same the debt yields even see into the past couple of years.

Smedes Rose

Okay.

Operator

Thank you. Our next question will be from Robin Farley with UBS.

Robin Farley

Great, thanks. I wanted to ask about plans for the balance sheet. You have already investment grade and then with these asset dispositions, you have a very strong balance sheet. What's the plan for that, you know, being so kind of under-levered? Is there a potential that you want to buy something and you want to be in a position to do that, or are you just trying to be defensive going into – concerned about a downturn? How should we think about what you're likely to do with your balance sheet at these levels, the leverage level so low? Thanks.

Jim Risoleo

Robin, we certainly are not wishing for a downturn. We have been very active on the capital allocation front, and we view three outlets for capital today. One is on the acquisition side, which I'll come back and talk about in a minute. The second is investing in our portfolio, which we spend a lot of time talking about that in connection with the Marriott transformational capital program as well as the sustainability ROI projects and the other ROI projects that we're undertaking, and it is something that we continue to mine the portfolio for to look for other opportunities to create shareholder value.

And the third is obviously share buybacks. And share buybacks to date have equated to $400 million plus a little more in the third quarter. So as we think about capital allocation going forward, we will take a measured approach on when and what amount to continue to buy back stock based on our view of the macro conditions in the world and our view of the operating cadence of our business as we think about getting into the budgeting process for 2020.

On the acquisition front, in the last call, I talked about acquisitions having a high bar given the – frankly given the uncertain macro environment, but there may very well be a transaction or more than one transaction that makes sense. So it's going to depend on starting with what market the asset might be located in, what the demand drivers are, what the pricing is and what we think we can achieve going forward from asset management initiatives and improving the operating performance of a particular property. So I think there are a lot of things on the table. You never say never to anything, but by no means are we in any rush to get all this money invested.

Michael Bluhm

Yes, look – and you should say, Robin, there is no read through for what we get on the financing other than it would capitalizing on what's probably one of the best financing environment we've seen in our lives. Again, Jim's comment earlier, you never know where you're headed, but we had a couple of maturities coming up and we went back and you look at kind of what happened in last downturn, Marriott international bond spreads grew at 1,000 basis points for almost 18 months. So it was sort of certainly, it was a pretty prudent time to really push out the maturity schedule, and clean up the balance sheet and position us for whatever market was going into the next couple of years.

Robin Farley

That makes sense. I guess maybe just one follow-up would be, is there sort of a target leverage ratio that I realize at any given point, you are evaluating share repurchase or an asset or two out there that you might want to buy? What should we think about as your targeted leverage range?

Jim Risoleo

I don't know that it's changed from where we talked about in the past, and we are thinking about leverage in the range of 2.5 times to 3 times debt to EBITDA.

Robin Farley

That leaves a pretty substantial potential in terms of what you could do with share repo transactions or acquisitions right, based from where you are now to get to 2.5 times to 3 times?

Jim Risoleo

That's about $2 billion to $2.5 billion of dry powder.

Robin Farley

Okay, all right, great. Thank you very much.

Operator

Our final question will be from Lukas Hartwich with Green Street Advisors.

David Bragg

Yes, this is David on for Lucas. Just two quick ones, for you on San Francisco. First off, just curious what your expectations are for that market next year, given your comments, Jim, on a weaker citywide calendar?

And then the second one is just I'm curious what you anticipate for your two Hyatt Hotels in that market with the new Grand Hyatt opening up at the airport? Thanks.

Jim Risoleo

Yes, I'll talk about the two Hyatts first. The Hyatt at the airport is obviously an in-terminal hotel. We see it not impacting either of our properties in any material way going forward, I mean we have a lot of meeting space at Burlingame, it's really – so it's more toward a group house. I think the Hyatt at the airport is going to be transient. And Union Square is a unique hotel in an unique location.

So next year, we're probably looking at San Francisco RevPAR performance of 2.5% to 3.5%, somewhere in that range.

David Bragg

Got it. That's it from me. Thanks guys.

Operator

Thank you. At this time, I'd now like to turn the call back over to Jim Risoleo for closing remarks.

Jim Risoleo

Thank you for joining us on the call today. We really appreciate the opportunity to discuss our third quarter results and 2019 outlook with you. Look forward to seeing you at NAREIT and talking with you in a few months to discuss our full-year results as well as providing you with 2020 guidance.

Have a great day, everyone. Thank you.