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OVERVIEW:

HST reported 4Q22 adjusted FFO per share of $0.44.

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PRESENTATION

Operator

Good morning, and welcome to the Host Hotels & Resorts Fourth Quarter 2022 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the call over to Jaime Marcus, Senior Vice President of Investor Relations.

Jaime N. Marcus - *Host Hotels & Resorts, Inc. - SVP of IR*

Thank you, and good morning, everyone. Before we begin, please note 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 hotel-level results. You can find this information together with reconciliations to the most directly comparable GAAP information in yesterday's earnings press release, in our 8-K filed with the SEC and in the supplemental financial information on our website at hosthotels.com.

With me on today's call are Jim Risoleo, President and Chief Executive Officer and Sourav Ghosh, Executive Vice President and Chief Financial Officer.

With that, I would like to turn the call over to Jim.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Thank you, Jaime, and thanks to everyone for joining us this morning.

We ended the year with strong operating improvements across our portfolio, driven by continued rate strength. For the full year 2022, we delivered Adjusted EBITDAre of $1.498 billion, All Owned Hotel EBITDA of $1.573 billion and All Owned Hotel RevPAR of $196 which helped us achieve the high end of our full year 2022 guidance range.

During the fourth quarter, we delivered Adjusted EBITDAre of $364 million and adjusted FFO per share of $0.44. Our All Owned Hotel EBITDA of $373 million in the fourth quarter was 5% above 2019 driven by rate strength, out-of-room revenues and expense efficiencies resulting from operating improvements.

All Owned Hotel RevPAR for the fourth quarter was approximately $197, a 60 basis point improvement over the fourth quarter of 2019. As a reminder, fourth quarter operations were impacted by Hurricane Ian, yet RevPAR, All Owned Hotel EBITDA and EBITDA margins still exceeded 2019 levels for the third consecutive quarter since the onset of the pandemic. All Owned Hotel revenues in the fourth quarter were up 1.1% over the fourth quarter of 2019, while All Owned Hotel operating expenses were down 40 basis points.

In addition to delivering strong operating improvements over the course of 2022, we continued to be recognized as a global leader in corporate responsibility. While we work toward achieving our 2025 environmental and social targets, we introduced our 2050 vision of becoming a net positive company, which is detailed in our 2022 Corporate Responsibility report. We now have a total of 10 LEED-certified properties, including 3 LEED Gold hotels, plus our corporate headquarters. In addition, we were named to the Dow Jones Sustainability Index World, which recognizes global sustainability leaders across all industries for the fourth consecutive year, and we were included in the DJSI North America for the sixth consecutive year. Additionally, we were once again included among the world's most sustainable companies in S&P's Global Sustainability Yearbook and named one of America's most responsible companies by Newsweek.

Subsequent to quarter end, we amended and restated our existing $2.5 billion credit facility to further enhance the strength and flexibility of our balance sheet. The agreement reflects no increase in pricing and incorporates our industry-leading commitment to ESG by adding incentives linked to portfolio sustainability initiatives including green building certifications and renewable energy consumption.

On the capital allocation front, during the fourth quarter, we repurchased 1.7 million shares at an average price of $15.93 per share through our common share repurchase program, bringing our total repurchases for the quarter to $27 million. We have approximately $973 million of remaining capacity under the repurchase program.

While macroeconomic headwinds continue to dominate the headlines, we remain optimistic about the state of travel for several reasons: First, although leisure rates are moderating, they remain well above 2019 levels. For context, transient rates at our resorts were 52% above 2019 in the fourth quarter compared to 64% in the third quarter. Second, in the fourth quarter, we booked 400,000 group rooms for 2023, and total group revenue pace is down only 70 basis points to the same time 2019. Third, while business transient demand has been uneven, revenue driven by this segment improved 440 basis points compared to 2019 on a quarterly sequential basis. Small and medium-size businesses are driving the business transient recovery and they represent a larger share of our corporate demand today. According to American Express Global Business Travel, transactions by this segment reached 80% of pre-pandemic levels in the third quarter. Our recent acquisitions continued to contribute to our outperformance and are substantially ahead of our underwriting expectations. Based on full year 2022 results, EBITDA from the 7 hotels we acquired in 2021 put us at the bottom end of our targeted range of 10 to 12x EBITDA, well ahead of our planned stabilization period.

Looking back on our transaction activity since 2018, we have acquired $3.5 billion of assets at a 13.7x EBITDA multiple and disposed of $4.9 billion of assets at a 17x EBITDA multiple including $954 million of estimated foregone capital expenditures. It is worth noting that this quarter, we moved the 2017 comparison of our All Owned Hotel results from 2019 to 2022 as our 2022 results reflect more normalized operations. Comparing All Owned Hotel 2022 results for our current portfolio to 2017, we have increased the RevPAR of our assets by 9%, the TrevPAR by 15%, the EBITDA per key by 31% and avoided considerable business disruption associated with capital projects.

Moving back to fourth quarter operations and starting with a hurricane update, we estimate that Hurricane Ian impacted our fourth quarter RevPAR growth by 220 basis points, our Adjusted EBITDAre by $15 million and our All Owned Hotel EBITDA margin by 40 basis points. On a full year basis, that translates to an All Owned Hotel RevPAR impact of 60 basis points and All Owned Hotel EBITDA impact of $18 million and an All Owned Hotel EBITDA margin impact of 10 basis points.

As a reminder, the Hyatt Regency Coconut Point opened in November and we expect to reopen the remaining pool facilities in waterpark in June. The Ritz-Carlton Naples remains closed, and we are targeting a phased reopening strategy beginning this summer. Reconstruction at the Ritz-Carlton will enhance the resilience of the property by elevating critical equipment, introducing dry flood-proofing measures and replacing major equipment with more efficient machinery.

In addition, while the hotel is closed, we are avoiding future disruption by executing planned capital projects that would have otherwise impacted operations. While we are still evaluating the total financial impacts of the storm, we currently estimate the total property damage and remediation costs for all impacted properties in Florida to be between $200 million and $220 million. We are insured for $325 million per named windstorm with a $15 million deductible resulting in potential insurance recovery of approximately $310 million for covered costs. Based on our current reopening plans for Ritz-Carlton Naples, we believe our insurance coverage is sufficient to cover substantially all the property damage as well as the near-term loss of business. Thus far this year, we have received approximately $50 million of insurance proceeds related to our claims.

Continuing with fourth quarter results, transient revenue was up 60 basis points compared to the fourth quarter of 2019 with strong rate increases making up for the volume shortfall resulting from lower business transient demand, flight cancellations during the holidays, colder weather in Florida and hurricane displacement at Hyatt Coconut Point and Ritz-Carlton Naples. Revenue growth was driven by Orlando, Phoenix and Hawaii, which offset declines in San Francisco and the Florida Gulf Coast. Our resort properties continue to outperform with 13% transient rate growth over 2021. In the fourth quarter, we had 6 resorts with transient rates above $1,000 led by the Four Seasons Jackson Hole at over $2,200 and the Four Seasons Orlando at close to $2,000.

Turning to group, this is the second consecutive quarter group revenue exceeded 2019 driven by 10% rate growth. In the fourth quarter, our hotels sold 954,000 group rooms, bringing our total group room nights sold for 2022 to $3.8 million, which represents approximately 84% of 2019 actual group room nights. Total group revenue for 2022 was down just 11% to 2019 as 6% rate growth and banquet contribution helped offset lower demand.

For 2023, we currently have 2.9 million definite group room nights on the books which represents 80% of full year 2022 group room nights. This compares to 71% on the books at the same time last year for 2022, representing a 9-point improvement. Group rate on the books for 2023 is up nearly 6% to the same time last year, a 140 basis point increase since the third quarter. In addition, group revenue pace is up approximately 17% to the same time last year. We are very encouraged by the large group base we have on the books, particularly given short-term booking trends.

Sourav will discuss more operational detail in our 2023 outlook in a few minutes.

In addition to delivering operational improvements, we continued to execute on our 3 strategic objectives, all of which are aimed at elevating the EBITDA growth profile of our portfolio. As a reminder, our objectives include redefining the hotel operating model with our managers, gaining market share at hotels through comprehensive renovations, and strategically allocating capital to development ROI projects.

As it relates to our first strategic objective, it is important to note that we have achieved the bulk of the $100 million to $150 million of expense savings associated with redefining the operating model. In order to achieve the high end of the range, we will need to get back to 2019 business volumes, and as of the fourth quarter, occupancy was still 10 points below the fourth quarter of 2019.

Turning to portfolio reinvestment, our 2023 capital expenditure guidance range is $600 million to $725 million, which reflects approximately $275 million of investment for redevelopment, repositioning and ROI projects. The projects include a transformational renovation of the Fairmont Kea Lani, the Phoenician Canyon Suites Villa expansion and completing construction of the tower expansion, guestroom renovation and lobby transformation at Ritz-Carlton Naples, which was delayed by Hurricane Ian.

To date, we have completed 14 out of 16 assets in our Marriott Transformational Capital Program, and we will complete the San Diego Marriott Marquis by the end of this month. The final property, the Washington Marriott at Metro Center is underway, and we expect it to be completed in May. It is worth noting that actual 2022 capital expenditures came in at the low end of our guidance range. As such, the midpoint of our 2023 range is $160 million higher than last year, which is driven by carryover capital and an estimated $100 million to $125 million of capital expenditures related to hurricane restoration work, which we expect to be reimbursed by insurance claims.

To conclude my remarks, we are extremely proud of the results we achieved in 2022, and we are confident that the quality of our portfolio, our ability to reinvest in our assets and our fortress balance sheet will allow us to continue our strong performance in 2023.

With that, I will now turn the call over to Sourav.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Thank you, Jim, and good morning, everyone.

Building on Jim's comments, I will go into detail on our fourth quarter operations full year 2023 guidance and our balance sheet.

Starting with business mix, overall transient revenue was up 60 basis points to the fourth quarter of 2019, driven by a 22% rate growth. Thanksgiving and the festive season saw RevPAR growth of 5% and 6% over 2019, respectively, driven by rate growth of over 30% for both periods. Despite impacts from flight cancellations and cold weather in Florida during the festive season, occupancy continued to increase sequentially each holiday.

Looking ahead, holidays in the first quarter of 2023 are shaping up well. Martin Luther King Junior weekend achieved a revenue that was 22% above last year, driven by occupancy. President's Day and Spring Break both have revenue pace ahead of 2022.

Business transient revenue was down 18% to the fourth quarter of 2019, driven by 2% rate growth. This is a meaningful improvement from the start of 2022 when business transient revenue was down 48% to the first quarter of 2019. As we have discussed previously, properties are targeting high single-digit business transient rate growth in 2023. During the fourth quarter, business transient demand was in line with pre-pandemic monthly seasonality and was driven by San Francisco, Washington, D.C. and New York, with New York just 5% behind 2019.

Turning to group, this marks the second quarter that revenue has surpassed 2019 levels. Group room revenues were 2% above the fourth quarter of 2019 driven by 10% rate growth. While overall group room demand was down 8% to 2019, properties in New York and Phoenix achieved group demand above 2019 levels. The short-term booking trend continued with in-the-quarter-for-the-quarter group rooms sold up 21% over the fourth quarter of 2019. The majority of the rooms booked were in Washington, D.C., San Diego, San Francisco and New York. Corporate group revenue was up 6% in the quarter, surpassing 2019 for the second quarter in a row, driven by a 14% rate increase. Outperformance was driven by hotels in Orlando, Phoenix, Maui, New York and New Orleans. All 3 months in the quarter had corporate group revenue ahead of 2019 driven by rate and revenue was up substantially at both convention and resort properties.

Association Group revenue was down 16% in the fourth quarter compared to 2019 despite rate growth of over 7%. The revenue decline was driven by volume losses in San Francisco, Boston and New Orleans. However, San Diego, New York and Phoenix had association group demand ahead of 2019 levels. While association revenue was down in the fourth quarter, we saw a meaningful pickup in booking activity for future years in the month of December. Additionally, rates compared to 2019 improved sequentially each month in the quarter from up 3% in October to up 15% in December.

Wrapping up on groups with social, military, educational, religious and fraternal or SMERF groups, revenue was up 29% over 2019 driven equally by a 14% increase in rooms sold and a 13% increase in rate. Sports teams and weddings drove increases in Washington, D.C., Los Angeles and New Orleans.

Shifting gears to margin and expenses, our fourth quarter All Owned Hotel EBITDA margin came in at 29.5%, which is 110 basis points better than the fourth quarter of 2019. We attribute the margin expansion to strong rates and increased out-of-room revenues, combined with operating model expense efficiencies despite the fact that Hurricane Ian negatively impacted margins by 40 basis points in the fourth quarter.

As expected, the margin gap to 2019 narrowed relative to prior quarters due to continued inflationary pressures and more normalized staffing levels at our hotels. Our efforts to redefine the operating model continue to yield positive results even with occupancy still meaningfully below 2019 levels and elevated pressure on wage rates, which ended the year up 5% on a year-over-year basis. As detailed in our earnings release, moving forward, we will cease presentation of All Owned Hotel results and return to a comparable presentation for our hotel level results. We believe this will provide investors with better understanding of underlying growth trends for our current portfolio without impacts from properties that experienced closures lasting 1 month or longer due to renovations or property damage. We have removed Hyatt Regency Coconut Point and the Ritz-Carlton Naples from our comparable operations in our full year 2023 forecast due to closures caused by Hurricane Ian.

Turning to our outlook for 2023, current macroeconomic headwinds and the potential for an economic slowdown are competing with the lodging recovery. That said, we continue to be optimistic about the future of travel. Our performance this year will depend on our ability to maintain high rated business at our resorts and the continued improvement of group, business transient and international inbound travel. Given the significant macroeconomic uncertainty in the second half of 2023, we have provided a wider guidance range than normal, which assumes a slowdown in the second half of the year. The low end contemplates a severe slowdown while the high end assumes a mild one.

For the first quarter, we expect RevPAR growth to be between 24% and 27% as a result of easier comparisons due to Omicron, which is expected to bolster full-year growth. For the remaining 3 quarters, we expect year-over-year RevPAR changes to be down low single digits at the low end of our guidance range to up low single digits at the high end of our range. Looking ahead to recent trends, preliminary January comparable hotel RevPAR is expected to be approximately $184, a 67% increase over January 2022 and a 3.5% increase over January 2019.

Taken together, for the full year, we anticipate comparable RevPAR growth of between 2% and 8% over 2022. Additionally, staffing levels are closer to stable and hotel operating costs are expected to increase in comparison to 2022.

As a result, we expect comparable EBITDA margins to be down 360 basis points year-over-year at the low end of our guidance to down 210 basis points at the high end. Though we expect comparable Hotel EBITDA margins to be down year-over-year, we expect margins in 2023 to be only slightly down to 2019 despite lagging occupancy and 4 years of inflationary pressures. This reflects our efforts to transform the portfolio and evolve the hotel operating model. It is particularly impressive when you consider that our total expense CAGR since 2019 is only 1.1% versus the Core CPI CAGR of 4.1%.

The margin decline year-over-year is driven by closer to stable staffing levels at our hotels, higher utility and insurance expenses lower attrition and cancellation fees, which totaled approximately $100 million in 2022 and occupancy below 2019 levels. As we noted throughout last year, 2022 margins were not sustainable, particularly when you consider the limited services provided at many of our hotels in the first half of the year, the staffing lag and the elevated inflationary pressures.

At the midpoint of our guidance range, we anticipate comparable RevPAR growth of 5% compared to 2022, a comparable hotel EBITDA margin of 29% and full year Adjusted EBITDAre of $1.460 billion. Our 2023 full year Adjusted EBITDAre includes an expected $11 million contribution from Hyatt Coconut Point and the Ritz-Carlton Naples, which are excluded from our comparable hotel set. The pre-hurricane estimated contribution from these 2 hotels, including the new tower at Naples was expected to be an additional $71 million in 2023. It is important to note that we have not included the business interruption proceeds from Hurricane Ian in our 2023 guidance.

In 2023, we expect wage rates to increase 5%. In the aggregate, from 2019 through 2023, we expect wage rates and utilities to increase 20% and insurance to increase approximately 100%. In 2023, we also expect attrition and cancellation fees to revert to historical levels. For context, in 2019, wages and benefits comprised approximately 50% of our total comparable expenses, utilities and insurance comprised approximately 5%, attrition and cancellation fees were $50 million, and occupancy is still 10 points below 2019 as of the fourth quarter of 2022.

Turning to our balance sheet and liquidity position, our weighted average maturity is 5.2 years at a weighted average interest rate of 4.4%, and we have no significant maturities until April 2024. As of today's call, we have $2.4 billion in total available liquidity, which includes $200 million of FF&E reserves and full availability of our $1.5 billion credit facility. We ended 2022 at 2.4x net leverage, and since our last call, both S&P and Fitch have revised our issuer outlooks to positive from stable.

Wrapping up, in January, we paid a quarterly cash dividend of $0.32 per share, which included a $0.20 special dividend. The Board of Directors authorized a regular quarterly cash dividend of $0.12 on our common stock to be paid on April 17, 2023, to stockholders of record as of March 31, 2023. All future dividends are subject to approval by the company's Board of Directors, though we expect to be able to maintain our quarterly dividend at a sustainable level taking into consideration potential macroeconomic factors.

To conclude, we believe our portfolio, our balance sheet and our team are well-positioned to continue outperforming, and we will continue to be strategic in the current macroeconomic environment.

With that, we would be happy to take your questions. To ensure we have time to address as many questions as possible, please limit yourself to 1 question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is coming from Smedes Rose with Citigroup.

Smedes Rose - *Citigroup Inc., Research Division - Director & Senior Analyst*

I appreciate you guys are providing a range for the year that incorporates a wide range of macroeconomic outlook. And I'm just curious, what are you specifically seeing in your business, if anything, that would suggest a slowdown in the back half of the year, either on the group side or what sort of visibility you have?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

At this point in time, we're not seeing any signs of weakness in any business segment. Our group pace is performing exceptionally well. I mean, 2022, we ended up, I think, with 3.8 million group room nights -- at the end of the year, which was 84% of 2019 actual. Rate was up 6% to 2019. 2023, we're very encouraged about how group is set up. We have 2.9 million definite room nights on the books. That's a 400,000 room night increase since quarter 3. That equates to 80% of 2022 actual room nights. At the same time last year, we were at 71%. So we picked up 9 points. And the other really encouraging thing is that total group revenue pace is up, I think, 17% to the same time last year.

So group is really set up well. And if you go back and look at how we're set up relative to 2019, we're only down 70 basis points in total revenue pace. So the short-term nature of the bookings is expected to continue. And as a result of the solid base that we have on the books, we're encouraged with how group will likely perform this year. So no indication of any slowdown there. I think your other question was related to business transient. We continue to see improvements in BT. I think, BT is going to evolve over time. BT room nights were down in quarter 4, I think, about 20% to quarter 4 of 2019 -- but we saw a pickup in bookings from Q3 of about 500 basis points. So business transient revenue was down 18% due to an improvement in rate again, but up from where we were in Q3. So special corporate, the encouraging piece on the business transient side is we expect to see high single-digit rate increases that is going to hold.

In January, very strong months for business transient demand. It was the best in the month for-the-month pickup by our top accounts. So no signs of weakness in the business transient front at all. And one thing I would point out, I think Sourav mentioned it in his comments, very encouraging that New York City is only 5% below where it was in 2019. So no signs of weakness. We felt it was prudent to give a range, given the uncertainty on the macroeconomic front that exists today.

Operator

Our next question is coming from Anthony Powell with Barclays.

Anthony Franklin Powell - *Barclays Bank PLC, Research Division - Research Analyst*

Just a follow-up to that prior question. I mean, if you were to build a bottoms-up guidance range for 2Q through 4Q, I guess how many percentage points would you be adding to that midpoint? And what does that mean for -- imply rather for a theoretical margin decline this year given what potential higher RevPAR.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Anthony, so let me start off by saying sort of what I said in my prepared remarks is the second half of the year for us in our guidance assumes some sort of a slowdown, whether it's at the low end, which would be a severe slowdown or the high end, which is a mild slowdown. Our midpoint is effectively a moderate slowdown. The way we are thinking about it when you look at our guidance is the second half. I'll sort of go through each segment. From a group perspective, we are assuming -- the second half will only see about half the group room nights pick up in-the-year-for-the-year compared to 2022. And as you may recall, 2022 had meaningful in-the-year-for-the-year pickup. And as I said in my prepared remarks, in the fourth quarter alone, we had 21% more pickup in the month -- in the quarter for the quarter. So in other words, the anticipation is if there is a slowdown, you would have less in-the-year-for-the-year pickup. That's on the group side. The rates, obviously, in the group sizes are locked in, so that's a positive. On the transient side, we expect that second half to be somewhat flattish. So with visa rates being slightly up driven by our downturn in convention hotels, but our resorts somewhat flat to maybe slightly down depending on the market.

So overall, transient rates and occupancy to be about flattish for the second half. And so when you really think about our guidance for the full year, our occupancy ends up being up a couple of points and rate effectively flattish, and again, all this is tied to the midpoint. When you think about sort of our margin performance quarter-by-quarter, reality is the distribution of EBITDA that we saw in 2019 is going to be very -- but we are expecting very similar in 2023. So in '19, we had, I think, it was about -- 27% or so of our EBITDA came from Q1, about 29% from Q2, 20% from Q3 and 24% from Q4. Very similar sort of cadence is what we are expecting from 2023.

Operator

Our next question is coming from David Katz of Jefferies.

David Brian Katz - *Jefferies LLC, Research Division - MD and Senior Equity Analyst of Gaming, Lodging & Leisure*

Jim, I wanted to go back to something you touched on in your comment and just to make sure we're clear about it, you talked about some of the hotels you bought that are, I think you said currently run rating about 10 or 12x EBITDA based on sort of what you paid. Could you just go back to those circumstances and talk about if we found ourselves at a 2019 normalized environment, where those multiples or cap rates would be?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Well, we don't expect to get back to 2019 levels of rate or performance at these properties, David. We are very confident that the rate set the hotels are able to charge today -- or for the most part, sustainable. There might be a little bit of a pullback. But we did message when we bought each property what the EBITDA multiple was based on 2019 numbers and what the cap rate was. And I can't tell you how pleased we are with the performance of -- of these properties over the last several years.

So we feel very confident that we're going to be able to maintain -- close to maintain the current rates that we're getting today subject to there being a very severe downturn that's affecting the consumer. We're just not seeing it today.

Operator

Our next question is coming from Chris Darling with Green Street.

Chris Darling - *Green Street Advisors, LLC, Research Division - Analyst of Lodging*

Can you provide an update on '23 group pace across some of your larger group focused markets. So thinking specifically about San Francisco, New York, Orlando and then maybe any other data points that might be helpful as well.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Sure. So in terms of group pace for our -- some of our larger markets, what's trending really well, and I would say, like effectively what we have on the books for 2023, 50% -- over 50% are from markets which are San Diego, Orlando, D.C., San Antonio and San Francisco. So whatever we have on the book for 2023, over 50% are from those markets. And when we're looking at sort of citywide data, we are at about 80% of 2019 levels that it relates to citywide and the markets that are above that threshold are Boston, San Antonio, San Diego, Atlanta, Chicago and the ones which are sort of below that threshold are -- Philadelphia, Seattle and certainly San Francisco and I would say New Orleans.

Operator

Our next question is coming from Chris Woronka with Deutsche Bank.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Jim, it's a bit of a hypothetical question, but obviously, there's a lot of talk about getting back to prior -- or maybe not peak occupancy levels, but still having a lot of occupancy to recover with group and a little bit of corporate. But that with the mix effect that may come at the expensive rate. So the question would be, is there -- and I know you don't solve for any one metric, is it reasonable to think that some of the more price-sensitive business and opaque business, things like that, you have your operators essentially intentionally keep that out of the business as we go forward and that we are structurally lower occ but higher rate. Is that a decent way to think about it?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Chris, I'd say it a little differently. It's easy to buy occupancy in certain markets at certain hotels. We don't think that's the right revenue management strategy. We believe that given the flow-through you get to EBITDA from rate increases relative to occupancy increases, which is about 80% for rate, 60% for occupancy that every dollar in rate is worth more money. We continue to see occupancy evolve, but we're going to continue to hold rate at high levels and continue to increase rates. I think we're encouraged, in particular, by group rate that we've been able to achieve that's locked in with definites on the books, up sequentially quarter-over-quarter and for 2023 looking pretty positive for us as well as the growth in business transient rate as well.

So the total group revenue pace for 2023 is up 17% at the same time last year. So -- and down only 70 basis points to 2019. That's very encouraging to us. So that's the strategy that we intend to employ going forward. And we are in favor as a general statement of cutting rate to buy occupancy.

Operator

Our next question is coming from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

If we go back in time to the structural margin improvement commentary, your view of the world may be back in Q3 of last year, what has been the biggest change or biggest surprise since that time? Obviously, Naples has some lingering impact. But for example, has the fill rate on open position surprised you since the Fall. And then maybe just as a follow-up, while I have you, has your forward visibility into 2Q changed year-over-year? Maybe you could contrast where you stand today on 2Q versus this time last year and what the rates on those forward bookings look like?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Sure. So I'll start with the second half of your question first. In terms of rates, we are positively -- we feel very good about some of the rates into Q2 and the rest of the year, what we have on the books. And as Jim mentioned, our group rate is up 6%. We expect business transient rates to be up in the high single digits. In terms of actual demand, it is still very short-term booking. And that goes to my remarks of sort of the short-term pickup that we are expecting. We saw in the fourth quarter, meaningful in-the-quarter-for-the-quarter pickup, that seems to continue. So while we do have a meaningful amount of group on the books, we are still expecting a significant amount of pickup in the first quarter for the first quarter and the same thing in the second quarter.

So from a visibility standpoint, I wouldn't say it's incremental, maybe slightly more incremental relative to the fourth quarter. As it relates to our operating model changes, what I do want to point out is we have said the $100 million to $150 million of savings relative to 2019, those expense savings, we have achieved a bulk of those savings. And frankly, the balance of it is really going to be driven by occupancy coming back. We are still, as Jim mentioned, 10 points off of 2019 from an occupancy perspective. And I would say with every point of occupancy gain, that would equate to roughly 30 to 40 bps of margin gain. So that is pretty meaningful when you think about it. So if we get back to sort of '19 occupancy levels, you're looking at anywhere from 300 to 400 basis points of margin improvement. And 1 of the things I would like to highlight is when you look at our expenses, specifically to $100 million to $150 million and you compare that really to 2019, our F&B revenues are down for 2023 to the midpoint relative to '19, 1.5%, but our expenses are actually down 2%. So it shows that all the operating model changes and a big piece of it was in food and beverage has made a huge difference.

Sales and marketing expense relative to '19 for 2023, again, to the midpoint, we'll be down less than 1%. So again, when you're comparing sort of the margin performance to '19, it really tells the story. And like I said, we'll be only slightly down at the midpoint. And of course, at the higher end of the guidance, we'd actually be above 2019.

Operator

Our next question is coming from Aryeh Klein with BMO.

Aryeh Klein - *BMO Capital Markets Equity Research - United States Real Estate Analyst*

Maybe following up on the margin question. What's the wherewithal to cut expenses if the macro is a little bit more difficult than you anticipate given some of the labor challenges that we've had over the last couple of years.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Sorry, I was on mute. Apologies. So I'm assuming you're talking about what if any sort of a pullback we can have if there is a slowdown in the second half. And the reality is, I think we now have a playbook going through COVID as to what would need to happen if there is a slowdown, and that is really a payoff department by department. So we feel very confident that if there is a slowdown, the changes that we would actually have to make if we are in that situation. And whether that's modifying hours of operations or driving efficiencies in any single department. So we are going to be well prepared for that.

Aryeh Klein - *BMO Capital Markets Equity Research - United States Real Estate Analyst*

Got it. And then just on the balance sheet. Can you update us on your priority and how you're thinking about acquisitions, dispositions and underwriting and admittedly more uncertain macro?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Sure. As we sit here today, we are in a very strong position. And given the balance sheet that we have, we will be well positioned regardless of what happens over the course of the year. As you see from our CapEx guidance this year, we're going to continue to invest in our portfolio, just for point of reference over the course of 2020 through 2022, we invested $1.5 billion in our assets, which is really a distinguishing factor that sets us apart from other lodging REITs. We're well positioned to outperform going forward, and we will continue to pursue ROI projects such as a complete transformation with Fairmont Kea Lani and expansion at the Canyon Suites at the Phoenician and the completion of our repositioning a new tower at the Ritz-Carlton in Naples. So we will continue to look for opportunities to deploy capital in our assets. Those underwrite generally to low to mid cash-on-cash returns, unlevered cash-on-cash returns.

So we think that's a very good place to put capital. On the acquisition front, there are a number of properties in the market right now that we are evaluating. I would just say that the bid-ask spread hasn't come to the middle yet. So for the near term, we're not anticipating, and when I say here talking about the next 60 to 90 days, I'm not anticipating acquiring any assets that could change. I'll just point out that the Four Season Jackson Hole was roughly a 30-day process which puts us in a really strong position because we are the only player out there that can really do a meaningful transaction bulk cash.

As we sit back and look at how the year might evolve, Ari, we're tracking all the CMBS loan maturities for 2023, 2024, we will see if certain owners are in a position where they're going to have to sell the asset, just given the current interest rate environment relative to where the environment was when they put their current debt financing in place and the fact that their asset is likely to need a significant CapEx because they haven't been able to invest over the course of the pandemic. And I think you could see us as the year evolves assuming distress presents itself, investing across markets that are different than markets that we invested in 2021 and 2022.

Operator

Our next question is coming from Robin Farley with UBS.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

Great. I was actually going to ask you about your acquisition plans. And I think you answered most of that question already, but I'm kind of intrigued by your last comment about investing in different markets than you did in the last 2 years. And just wondering if that means more sort of urban rather than resort markets or kind of what that might mean? And then if I could just ask a clarification. When you were talking about your revenue pace, group revenue pace being down about 70 bps in 2018, I guess rate, it sounds like it's up high single digits. So a number of group nights are you anticipating being down around that sort of high single-digit rate relative to '19? Or do you -- in other words, just curious what you're factoring into guidance in terms of when group you think might make a full recovery in terms of room nights and transient nights as well.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Sure, Robin. I'll take the part of your question related to the investment market. I think as you think about how we have been deploying capital over the last 6 years or so, everything we've done has been to elevate the EBITDA growth profile of the company. And when I say that we're going to be open-minded and look at other markets, it's really transaction dependent and whether or not we think we can create value and what we can do with the underlying EBITDA growth of that asset going forward. So I said differently, I don't think there's a market in the country that has a red line through it, subject to all of the underwriting criteria that we employ when we evaluate a particular hotel. Sourav, do you want to touch base on the group?

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Sure. Robin, on the group side, yes, you're right. It's effectively on the group room nights. We are pacing in sort of the high single digits below 2019. The expectation right now at the midpoint, again, we would get to about around 90% of our group room night levels relative to '19. But of course, remember, like I said, that assumes that we only pick up effectively half the amount of group room nights in-the-year-for-the-year for the second half.

Operator

(Operator Instructions)

Our next question is coming from Jay Kornreich with SMBC.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

As it looks like the 2023 outlook you provided excludes any contribution from the Hurricane Ian impacted hotels. I believe you mentioned a $71 million EBITDA shortfall I'm curious, as we see those assets coming back online throughout 2023, if that provides an upside opportunity to the guidance range? And if there's anything else you have your eye on besides the possible recession that get surprised to the upside or I guess the downside?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Well, Jay, I think it's important to really highlight that the assets affected by Hurricane Ian were anticipated to generate $82 million in EBITDA in 2023. We have $11 million in our guidance to the midpoint. So there's a $71 million gap that is purely related to hurricane disruption. We have not assumed any business interruption proceeds hitting our guidance. So if we were to get business interruption proceeds over the course of 2023, that is upside going forward. So we think that, that is likely to occur later in 2023 and into 2024. But I do want to point out that the $71 million is a significant amount of EBITDA that is going to impact 1 year.

It's just this year because we're very excited about the performance of the Ritz-Carlton for full year 2024. The property will be completely transformed. The new tower will be open. We've added 24 rooms and materially increased the Suite count of that asset and made a number of other enhancements. So the 1 year of disruption from Hurricane Ian has cost us has cost us a significant amount for 2023.

Jay Bradley Kornreich - *SMBC Nikko Securities America, Inc., Research Division - Research Analyst*

Maybe just to clarify that the $11 million that you expect in 2023, could that be looked at as a conservative estimate? Or is that what you expect even as both hotels open up during the year?

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

I think it's what we expect at this point in time.

Operator

Our next question is coming from Floris Van Dijkum with Compass Point.

Floris Gerbrand Hendrik Van Dijkum - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

A little bit of a mixed message here. Obviously, you've got group pace ahead, very strong results the last quarter. If I look RevPAR expectations in the first quarter are up, call it, 24% to 27%, call it, 25%, pretty strong yet. Your -- even with -- if we were to include your business interruption insurance, which, again, you have that insurance presumably, you're going to get that $71 million of missing EBITDA from Naples. You're looking at flat EBITDA growth based on your consensus. Can you maybe provide any sort of historical context where occupancy in your portfolio is trending higher on a longer-term basis and your rate and your margins are down or your EBITDA is going down.

Sourav Ghosh - *Host Hotels & Resorts, Inc. - Executive VP & CFO*

Sorry, are you asking historically, if you've seen occupancy go up and margins go down. I think the way to think about it, Floris, as sort of I have said, relative to '19, right, we -- actually, if we see occupancy go up, we would actually expect margin performance to improve from where the occupancy stands as of today. I think that's where the upside is. The reality is we don't have visibility into the second half of the year. Therefore, our assumptions are I think, reasonable at this time with the data that we have available right now. And when you look at the top end of the guidance, actually, the margins are up relative to '19. So it really depends on where things shape up for the second half and what kind of in-the-year-for-the-year pickup we see in group. And then you have to remember, business investment sort of nonresidential fixed investment, you're looking at only a 70 basis points growth for the year. So what we can expect, it's very difficult to predict at this point for the second half. It's our guidance range is based on the best available data we have today.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Yes, Floris, the one thing I would add is over the course of 2022, for the second and third quarter call, we were very clear that the margin performance we were seeing was not sustainable. And it wasn't sustainable for a lot of reasons. We were not at optimal staffing levels. We had a number of hotels where full services were not being offered to customers. Restaurants were closed. Club lounges were closed. And we feel that the proper comparison for margins is 2019. And in 2019 levels, even down 10 basis points we're only down 57 basis points in margin. And just to reiterate, we have -- seen a 4.1% inflation CAGR, a CPI CAGR, and our expenses have only gone up 1.1%. So we actually feel that we're positioned very well. And as Sourav pointed out, every point of occupancy that we get is going to equate to 30 to 40 basis points of margin improvement.

Operator

With our remaining time, I will hand it back to Mr. Risoleo for any closing comments you wish to make.

James F. Risoleo - *Host Hotels & Resorts, Inc. - President, CEO & Director*

Thank you very much. I would like to thank everyone for joining us on our fourth quarter call today. We appreciate the opportunity to discuss our quarterly results with you, and we look forward to meeting with many of you in the coming weeks and months. Thank you for your continued support and have a great day.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time, and have a wonderful day, and we thank you for your participation.
