

November 22, 2021

The Honorable Gary Gensler
Chair, Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File Number 4-711 (Human Capital Petition)

Hotel REIT Earnings Calls Demonstrate Investor Interest in Hotel Workforce Disclosures

Dear Chair Gensler,

We are writing to provide additional evidence following up on our letter of September 1, 2021 in support of the July 6, 2017 petition for rulemaking regarding human capital management disclosure standards (File Number 4-711).

Recent earnings calls provide evidence for what institutional investors and hotel REIT executives consider useful when discussing the REIT's hotel workforce and human capital management metrics. During the calls, investors and hotel REIT executives discuss hotel workforce metrics such as the characteristics of the hotel workforce, its cost, problems in turnover and hiring, the skills, talent, and experience of that workforce to provide customer satisfaction, and detailed discussion about the hotel workforce compensation.

The evidence is from earnings calls for fourteen publicly traded REITS, including Host Hotels & Resorts, Park Hotels & Resorts, RLJ, Ashford, Pebblebrook, Xenia, DiamondRock, Apple Hospitality, Hersha, Ryman, Service Properties and Sunstone. The institutional investors included Bank of America, Jeffries Financial Group, Citigroup, Evercore Inc., UBS Investment Bank, Capital One Securities, JPMorgan Chase & Co, Raymond James & Associates, Barclays Bank PLC, Deutsche Bank AG, BMO Capital Markets, Wells Fargo Securities, B. Riley Securities, Green Street Advisors, and Truist Securities.

What Hotel Workforce Topics Do Investors Ask About on REIT Quarterly Earnings Calls?

Institutional investors ask hotel REIT executives about the workforce in their hotels to gain insight into how companies are managed, their operational framework, and financial health. Investor questions closely overlap with the four foundational workforce disclosure rules requested by the Human Capital Management Coalition's (HCMC) petition or rulemaking on human capital management disclosure:ⁱ

- The number of employees:
“under our pre-COVID model, how many FTEs would you have at these demand levels? And then just compare that to what you actually have today?”- Dori

Kesten, Senior Analyst, Wells Fargo Securities, LLC, Research Division, Q2 2021 question to Xenia Hotels & Resortsⁱⁱ

- Total cost of the workforce:
“I know that there has been some commentary and discussion about the cost of labor and the availability of labor. But I hope you'll agree that it seems like a topic we can't discuss enough at this point. What kind of endurance do you see? And what kind of visibility do you have in terms of how long the weight on labor cost continues to press?” - **David Katz**, Analyst, Jefferies LLC, Q3 2021 question to Hersha Hospitality Trustⁱⁱⁱ
- Turnover metrics:
“just take a crack at the labor question from kind of a different angle, which is an aside from union contracts, how much do you think labor has -- labor wage rates have to rise over the next year to get us back to an equilibrium where we're not talking about a deficit in man hours and increased turnover relative to history?” - **Bill Crow**, Analyst, Raymond James, Q3 2021 question to Park Hotels & Resorts^{iv}
- Employee diversity data:
According to BlackRock's 2021 investment stewardship report, this information is crucial for investors, “Companies should disclose actions they are taking to support a diverse and engaged workforce and, in those markets where we consider demographic diversity a priority, a demographic profile of its workforce.”^v

Investor inquiries suggest the need for additional disclosure based of hospitality industry-specific indicators of effective human capital management:

- Customer satisfaction metrics:
“I wanted to follow up on the labor side. what kind of guest feedback are you hearing? And do you think you'll need to add labor or many of these to meet guest needs? Are you still providing ample services in this lower occupancy environment? - Jonathan Jenkins, Analyst, Janney Montgomery Scott LLC, Q3 2021 question to RLJ Lodging Trust^{vi}
- Workforce health & safety information:
The Sustainability Accounting Standards Board, a not-for-profit standards-setting organization with labor standards for hotels, recommends the disclosure of the total amount of monetary losses because of legal proceedings associated with labor law violations, including health & safety violations.^{vii}
- Workforce compensation metrics:
Workforce compensation metrics that detail pay data by race, gender, and ethnicity are already collected in California to encourage employers to self-assess pay disparities and promote compliance with equal pay and anti-discrimination laws.^{viii}
- Workforce satisfaction and engagement data:
Research demonstrates that poor human capital management practices create risks and impose costs for shareholders. This literature has found that companies

with low employee engagement, morale, and satisfaction have lower productivity.^{ix}

Enhanced disclosure of these workforce metrics allows investors to make informed decisions and conduct due diligence about the social and environmental impact of hotel operations.

Foundational Workforce Composition Metrics are a Central Concern of Hotel REIT Investors

Investors use the basic workforce metrics recommended by the Human Capital Management Coalition to assess the operating performance and financial condition of hotel REITs. On quarterly earnings calls, Hotel REIT investors regularly ask for workforce composition information such as the number of workers employed by contractors to a Taxable REIT Subsidiary, the compensation costs of those employees and corporate strategies to attract and retain hotel workers:

Workforce compensation metrics: “So there seems to be pretty decent odds that we'll see an increase in the minimum wage. I'm just curious what your thoughts are around that issue.” - Lukas Hartwich, Analyst, Green Street Advisors LLC, Q4 2020 question to DiamondRock Hospitality.^x

Total cost of the workforce: “And if I may ask one additional question, which is about labor and the cost thereof, I think there's little disagreement that it is an issue. I think where there's more debate is how long it lasts, and I would welcome your opinion on that as well. - **David Katz**, Analyst, Jefferies LLC, question Q3 2021 question to Xenia Hotels & Resorts^{xi}

Turnover and retention: “My first question just relates to staffing. Could you provide roughly how close you are to normalized staffing levels for your corporate-focused hotels? Versus your leisure-focused hotels?” Gregory Miller, Analyst, Truist Securities, Q3 21 question to RLJ Lodging Trust^{xii}

Recognizing the relevance of information related to the workforce in their hotels, REIT executives provide information on labor efficiency, costs, and availability on their quarterly earnings calls with investors:

“Taken out” 8% of labor force: “But, as we mentioned on the last call, we've taken out about 1,200 FTEs, that's resulting in about 8% of the workforce plus or minus at the property level.”^{xiii} Park CEO Thomas Baltimore Q2 2021 Earnings Call^{xiv}

Staffing and hiring: “The issue around labor is it really varies market by market. We have seen the greatest level of staffing challenges in the markets where demand quickly returned, such as South Florida, Atlanta, Texas, and Phoenix. And we are in constant dialogue with our operators on the hiring process. And they are really keen on dedicating the resources that are necessary to ramp up hiring. We're seeing a slight increase in applicant flow over the last four weeks or so, four or five weeks.”^{xv} Host Hotels & Resorts CEO Jim Risoleo Q2 2021^{xvi}

Large investment managers like State Street and BlackRock support disclosures that reveal a company's key human capital priorities and how they drive long-term sustainable performance.^{xvii} Alongside the compensation and turnover issues discussed above, a top investment stewardship priority for Blackrock in 2021 was diversity data as collected by the Equal Employment Opportunity Commission's EEO-1 Survey. The EEO-1 survey reports pay and hours-worked data by establishment, job category, sex, race and ethnicity. By creating a framework where employers report demographic and pay data, the SEC can provide investors visibility of an issuers compliance with equal pay and anti-discrimination laws."^{xviii}

Hotel REIT Investors Need Industry-Specific Workforce Information for Relevant Decision-making

Industry-specific workforce information is a regular topic on hotel REIT quarterly earnings calls, where investors ask for information about the relationship between hotel staffing and customer satisfaction:

Customer satisfaction & staffing: "I wanted to follow up on the labor and margin discussion. Can you provide some additional color on the guest feedback you're hearing? And do you think you'll need to add labor in order to meet guest needs in the near term? Or are you still providing ample services in this term currently lower occupancy environment?" **Jonathan Jenkins** -
- *Janney Montgomery Scott – Analyst, Q3 21 question to Xenia^{xix}*

In response, hotel REIT executives often cite TripAdvisor and internal metrics to explain how their labor strategy is measurable in guest opinion:

"we track our TripAdvisor rankings, traveler rankings. And what we've been gaining over the course of the entire year within our portfolio, we're up from pre-pandemic levels, and we're up from the beginning of the year. So we do think that translates into better performance and properties that are unable to either [attract] higher quality talent or enough talent or maintain their properties tend to get into a vicious circle of losing share not generating enough cash flow to improve their properties or pay their people or have enough people. **Jon E. Bortz** – *Pebblebrook President, Chief Executive Officer, Chairman of the Board^{xx}*

Hotel industry-specific metrics such as customer satisfaction metrics, workforce health & safety information and workforce satisfaction and engagement data are vital for investors looking to understand a hotel REITs long-term value creation strategy and its impact on workers, customers, and investors.

Hotel REITs are among the only REITs that act like employers instead of investors

Hotel REITs are an exceptional category of REIT that yield operating income and bear the costs of all operating expenses, including labor, at their properties and therefore are incentivized to set-up wholly owned subsidiaries to which they can lease their hotels. These subsidiaries then contract out the management of properties to third-party operators. Most other REITs, by contrast, are triple-net-REITs, meaning they enter into true leases with third-party tenants who pay fixed rent and are responsible for operating expenses. Hotel REITs account for just 3% of the overall U.S. REIT market but are among the largest hotel owners and those hotels are responsible for the employment of more than 100,000 workers.^{xxi}

The SEC Should Require That Hotel REITs Disclose Industry-Specific Workforce Information

SEC Rulemaking on human capital management practices should require publicly traded hotel REITs to disclose basic information about the workers who generate value in their properties. By requiring hotel REITs to report on the workforce in their hotels, the SEC can help standardize and regularize the reporting of workforce information to investors in a way that improves visibility of corporate strategies to attract workers, address pay disparities along gender and racial lines, and promote compliance with safety, equal pay and anti-discrimination laws. This enhanced transparency will allow investors to better evaluate companies based on the quality of their employment practices.

If the Commission or Staff have any questions about this letter, or if we can provide any additional information, please contact me at [REDACTED]. Thank you for your consideration.

Sincerely,



Dana Wise, Director of Corporate Engagement

ⁱ Human Capital Management Coalition Rulemaking Petition, 2017. Available at: <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf>.

Human Capital Management Coalition Statement Re: SEC's Regulation S-K Final Rulemaking, 2020. Available at: <https://www.globenewswire.com/newsrelease/2020/08/27/2085000/0/en/Human-Capital-Management-Coalition-Statement-Re-SEC-s-Regulation-S-K-FinalRulemaking.html>

ⁱⁱ <https://www.fool.com/earnings/call-transcripts/2021/08/04/xenia-hotels-and-resorts-xhr-q2-2021-earnings-call/>

ⁱⁱⁱ <https://www.fool.com/earnings/call-transcripts/2021/10/27/hersha-hospitality-reit-trust-ht-q3-2021-earnings/>

^{iv} <https://www.fool.com/earnings/call-transcripts/2021/11/05/park-hotels-resorts-inc-pk-q3-2021-earnings-call-t/>

^v <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

^{vi} <https://app.fincredible.ai/company/RLJ/earnings/117952/transcript>

^{vii} https://www.sasb.org/wp-content/uploads/2018/11/Hotels_Lodging_Standard_2018.pdf

^{viii} <https://www.dfeh.ca.gov/paydatareporting/faqs/>

^{ix} Zeynep Ton, The Good Jobs Strategy (New Harvest, 2014). Jeff Higgins, "Human Capital Financial Statements" Human Capital Management Institute.

^x <https://www.fool.com/earnings/call-transcripts/2021/02/26/diamondrock-hospitality-co-drh-q4-2020-earnings-ca/>

^{xi} <https://www.fool.com/earnings/call-transcripts/2021/11/03/xenia-hotels-and-resorts-xhr-q3-2021-earnings-call/>

^{xii} <https://app.fincredible.ai/company/RLJ/earnings/117952/transcript>

^{xiii} Transcript of Park Hotels & Resorts [2nd Quarter 2021 Earnings Call](#) 8/6/2021

^{xiv} <https://www.fool.com/earnings/call-transcripts/2021/08/06/park-hotels-resorts-inc-pk-q2-2021-earnings-call-t/>

^{xv} Transcript of Host Hotels & Resorts [2nd Quarter 2021 Earnings Call](#) 8/5/2021

^{xvi} <https://www.fool.com/earnings/call-transcripts/2021/08/05/host-hotels-resorts-hst-q2-2021-earnings-call-tran/>

^{xvii} <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

& <https://www.ssga.com/library-content/pdfs/asset-stewardship/asset-stewardship-report-2020.pdf>

^{xviii} <https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

^{xix} <https://seekingalpha.com/article/4464692-xenia-hotels-and-resorts-xhr-ceo-marcel-verbaas-on-q3-2021-results-earnings-call-transcript>

^{xx} <https://www.fool.com/earnings/call-transcripts/2021/10/29/pebblebrook-hotel-trust-reit-peb-q3-2021-earnings/>

^{xxi} Size measured by market capitalization, see NAREIT 2021 Midyear Outlook, pg 13. Available at: <https://www.reit.com/data-research/research/nareit-research/2021-reit-midyear-outlook-economy-commercial-real-estate>. Employee estimates based on room counts for Host Hotels, Park Hotels & Resorts, RLJ Lodging Trust, Ashford Hospitality Trust, Service Properties Trust, Pebblebrook Hotel Trust, Xenia Hotels & Resorts, DiamondRock Hospitality, Chatham Lodging Trust, Hersha Hospitality Trust, Sunstone Hotel Investors, Braemar Hotels & Resorts, and Apple Hospitality REIT. UNITE HERE employee estimate based on data obtained through collective bargaining and an industry average operating hotel staff to room ratio of .5