

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

The Honorable Allison Herren Lee
Commissioner
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

**Re: Public Input Welcomed on Climate Change Disclosures &
File Number 4-711 (Human Capital Petition)**

Dear Chair Gensler and Commissioner Lee:

We write in response to Commissioner Lee's Request for Input on Climate Change Disclosures and in support of the July 6, 2017, petition for rulemaking regarding human capital management disclosure standards.¹ UNITE HERE represents 300,000 workers in the gaming, hotel, and food service industries throughout the U.S. and Canada. Representing our members' stakes in Taft-Hartley pension funds, UNITE HERE has consistently advocated for improved Environmental, Social and Governance (ESG) practices in portfolio companies.

We urge the SEC to improve corporate governance in the hotel industry by requiring human capital management disclosure that matches the specific ownership structure of the industry, where the hotel owner is often a Taxable REIT Subsidiary (TRS) to a parent REIT in which the TRS contracts out the day-to-day management of its properties—including the workforce—to a third-party manager. This arrangement, described by academic economist and former administrator of the Wage and Hour Division David Weil as a “fissured workplace”, involves multiple entities sharing the rewards and responsibilities for effectively utilizing human capital to generate value.² For the reasons that we detail further below, the most critical workforce disclosure for hotel REITs would cover the employees of contractors to Taxable REIT Subsidiaries (TRS), which are the bulk of the hotel workforce.

For both hotel REITs and the operating companies with which they contract for day-to-day operations, enhanced disclosure on human capital management is vital for investors that focus on the workforce as a primary driver of business success. Unlike other REITs, hotel REITs' largest operating expense is labor, and profitability is closely tied to customer experience which is delivered by service workers.³ Accordingly, company strategy in the areas of recruiting, training,

¹ Public Input Welcomed on Climate Change Disclosures. March 15, 2021. Available at: <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>. Petition for Rulemaking to the Securities and Exchange Commission. July 6, 2017. Available at: <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf>.

² David Weil, “Understanding the Present and Future of Work in the Fissured Workplace Context” *The Russell Sage Foundation Journal of the Social Sciences*, 2019.

³ Host 10-K. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm#:~:text=we%20lease%20substantially%20all%20our%20consolidated%20hotels%20to%20certain%20of%20our%20subsidiaries%20designated%20as%20taxable%20REIT%20subsidiaries.

retention, and engagement should be made clear to investors through quantitative and comparable metrics.⁴

Hotel investors need more workforce information because many companies fail to utilize evidence-based human capital management practices.⁵ Recent research indicates that poor human capital management practices create risks and impose costs for shareholders.⁶ This literature has found that firms with low employee engagement, morale, and satisfaction have lower productivity.⁷ Without disclosure about a hotel company's talent management effectiveness, investors have no visibility about unreported human capital risks. By way of contrast, several studies have shown that service-sector companies with higher wages are perceived to offer better customer service and experience lower employee-turnover rates.⁸

We support greater disclosure of workforce information so that investors have consistent, comparable, and reliable information and recommend that the Commission adopt the four foundational workforce disclosure rules requested by the Human Capital Management Coalition's (HCMC) petition for rulemaking on human capital management disclosure.⁹

1. **How many workers** (including employees and independent contractors—e.g., the hotel workforce employed by contractors to a Taxable REIT Subsidiary) the company uses to accomplish its strategy;
2. **Total cost of the workforce**, presented in a way that evinces a discernable through-line from the company's audited financial reports to issuer disclosures;
3. **Turnover**, including management's actions to attract and retain workers and how changes in the ability to attract and retain workers affect the company's performance and strategy; and
4. **Diversity data**, including diversity by seniority, sufficient to understand the company's efforts to access and develop new sources of human capital and any strengths or weaknesses in its ability to do so.

Building on the baseline workforce metrics recommended by the HCMC petition, hotel investors would benefit from additional disclosure of industry-specific indicators of effective human capital management:

⁴ Recommendation of the SEC Investor Advisory Committee Relating to ESG Disclosure. May 21, 2020, <https://www.sec.gov/spotlight/investor-advisory-committee-2012/esg-disclosure.pdf>.

⁵ John Burn-Murdoch, Steven Bernard, and Andrew Hill "Challenges for CEOs in 2014" *Financial Times*, January 9, 2014; Jeffery Pfeffer and Robert Sutton, "Evidence Based Management" *Harvard Business Review* January 2006.

⁶ Zeynep Ton, *The Good Jobs Strategy* (New Harvest, 2014). Jeff Higgins, "Human Capital Financial Statements" *Human Capital Management Institute*.

⁷ Zeynep Ton, *The Good Jobs Strategy* (New Harvest, 2014). Jeff Higgins, "Human Capital Financial Statements" *Human Capital Management Institute*.

⁸ Zeynep Ton, "Why Good Jobs Are Good for Retailers" *Harvard Business Review*, January 2012.; Clara Xiaoling Chen and Tatiana Sandino, "Can Wages Buy Honesty? The Relationship Between Relative Wages and Employee Theft" *Journal of Accounting Research*, vol. 50, no. 4, 2012.

⁹ 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/news-release/2020/08/27/2085000/0/en/Human-Capital-Management-Coalition-Statement-Re-SEC-s-Regulation-S-K-Final-Rulemaking.html>

- **Customer satisfaction metrics**, such as “Net promoter scores”(https://www.netpromoter.com/know/) American Customer Satisfaction Index (ACSI), Consumer Reports (CR), and Yelp.com. Research has shown that companies that invest in their workforce achieve superior customer satisfaction outcomes.¹⁰ In the retail and service sectors specially, customer and employee satisfaction have been linked through a study conducted by UBS analysts.¹¹
- **Workforce health & safety information contained in Osha 300 forms.** These are already routinely collected by hotel employers and describe the number of property-level workplace injuries sustained by severity and job class.¹² Hotel employees have higher rates of occupational injury and sustain more injuries than most other service workers and Osha 300 injury logs offer investors insight into the effectiveness of a company’s injury-prevention plan.¹³
- **Workforce compensation metrics** that describe salary and benefit information by job class, gender, age, race and ethnicity, which offer investors insight a hotel company’s long-term human capital management strategy. Researchers have found that service-sector employers that pay higher wages often provide better customer service and experience lower levels of turnover.¹⁴
- **Workforce satisfaction and engagement** data from CareerBliss, Glassdoor, and Indeed, which allow investors insight into the relationship between a hotel company’s performance and its human capital management practices. Employee satisfaction is a good proxy for a company culture that fosters long-term value creation in the retail and service sector according to UBS analysts,¹⁵

Hotel REIT Disclosures Must Include Employees of Contractors to Taxable REIT Subsidiaries

Currently, publicly traded hotel REITs like Host Hotels & Resorts (“Host”), Park Hotels & Resorts, and Xenia Hotels & Resorts avoid meaningful workforce disclosure by reporting only on their corporate workforce and not the tens of thousands of people employed by contractors in the hotels that the REITs operate through their Taxable REIT Subsidiaries.¹⁶

Unlike other REITs, which have true third-party tenants who bear the cost of operating expenses associated with tenancy such as utilities, tax and insurance expenses, hotel REITs profit from and bear the cost of operations in their properties, which allows them access to operational metrics and

¹⁰ Zeynep Ton, *The Good Jobs Strategy* (New Harvest, 2014).

¹¹ Hubert Jeaneau, Julie Hudson, Eva Tiffany Zlotnicka, “Corporate Culture: Relevant to investors?” *UBS Investment Research Q-Series: Human Capital*, 2013.

¹² OSHA 300 Injury & Illness Recordkeeping Forms, required by OSHA Recordkeeping regulation (29 CFR 1904.29): <https://www.osha.gov/laws-regs/regulations/standardnumber/1904/1904.29>

¹³ Susan Buchanan, Pamela Vossenas, Niklas Krause, Joan Moriarty, Eric Frumin et al, “Occupational Injury Disparities in the US Hotel Industry” *American Journal Of Industrial Medicine*, 2010.

¹⁴ Zeynep Ton, *The Good Jobs Strategy* (New Harvest, 2014).

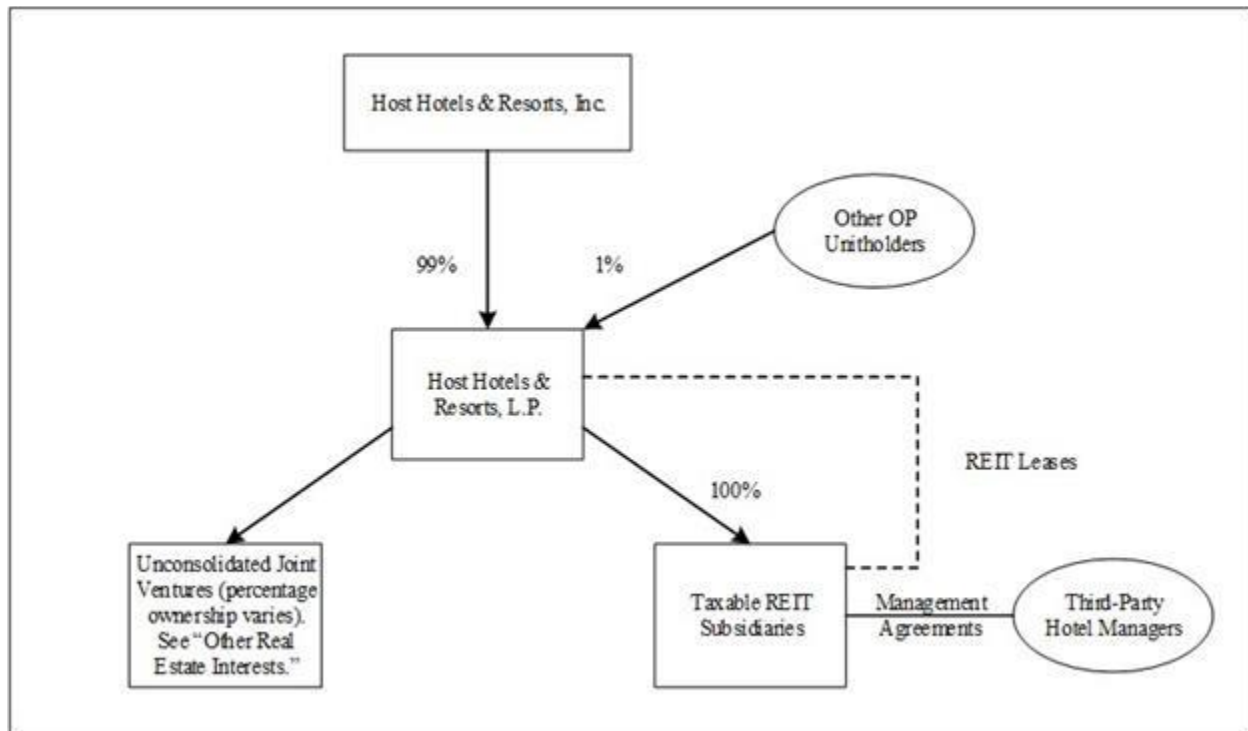
¹⁵ Hubert Jeaneau, Julie Hudson, Eva Tiffany Zlotnicka, “Corporate Culture: Relevant to investors?” *UBS Investment Research Q-Series: Human Capital*, 2013.

¹⁶ Host 2020 10-K. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm & Park 2020 10-K. Available at <https://otp.tools.investis.com/generic/sec/sec-show.aspx?FilingId=14752799&Cik=0001617406&Type=PDF>

data.¹⁷ Investors cannot evaluate the human capital management strategies of hotel REITs without adequate information about the operations of their Taxable REIT Subsidiaries and their contractors.

The chart below is from Host's latest annual report detailing its operating structure.¹⁸ Host is the largest hotel REIT and its operating structure is representative of the fissured workplace at REIT-owned hotel properties¹⁹:

Figure 1: Host Hotels & Resorts Operating Structure²⁰



- The Taxable REIT Subsidiary²¹ takes the profits from hotel operations.²²

¹⁷ Host 2020 10-K, Page 34. Available at

https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

¹⁸ Host 2020 10-K, Page 10. https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

¹⁹ Host 2020 10-K, Page 10. Available at

https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm & David Weil, "Understanding the Present and Future of Work in the Fissured Workplace Context" *The Russell Sage Foundation Journal of the Social Sciences*, 2019.

²⁰ Host 2020 10-K, Page 10. Available at

https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

²¹ Host 10-K, Page 10. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm#:~:text=we%20lease%20substantially%20all%20our%20consolidated%20hotels%20to%20certain%20of%20our%20subsidiaries%20designated%20as%20taxable%20REIT%20subsidiaries

²² Host 2020 10-K, Page 10. Available at

https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm#:~:text=distribution%20reflects%20hotel-level%20sales%20less%20property-level%20operating%20expenses

- “Day-to-day” operations are contracted out to managers like Marriott and Hilton who are paid a fee based on the hotel revenues and profitability.²³ Host advances hotel operating funds to the manager.²⁴
- Host maintains financial control of the properties through budget approval rights.²⁵

Host reports that its hotel workforce is nearly 60% of its total operating costs.²⁶ This labor intensity is common across Host’s segment of the hotel industry.²⁷ However, in 2019 Host reported having just 175 employees, despite owning 46,700 rooms in 80 hotels and generating \$5.5B in revenues.²⁸ We estimate there were roughly 20,000 people working in Host’s hotels before the pandemic.²⁹

Hotel REITs focus narrowly on their corporate employees in EDGAR filings—and do not disclose basic human capital management metrics like those recommended by HCMC, but describe driving property-level workforce cuts and changes in customer service levels when speaking to investors on recent earnings calls:

- Host’s CEO said redefining the operating model in their hotels in the wake of the pandemic would generate \$100 million to \$150 million of labor cost savings,³⁰
- Park’s CEO said the crisis provided a benefit by creating an opportunity to cut housekeeping³¹, and negotiate for concessions from union workers, “I also think that this crisis has really forced all of us to rethink the operating model. And as we pointed out in our prepared remarks, we’ve already taken \$70 million in cost out. That’s over 200 basis points and that’s non-union hotels. That hasn’t even gotten to the point of, what I think is a real opportunity to sitdown with those employees, represented by CBAs, and find a better balance there.”³²

²³ Host 2020 Corporate Responsibility Report, Page 11. Available at: https://www.hosthotels.com/-/media/hosthotels/files/downloadlinksassets/cr-highlights/host_hotels_resorts_inc_corporate_responsibility_report.pdf

²⁴ Host 2020 10-K, Page 34. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

²⁵ Host 2020 10-K, Page 7. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

²⁶ Host 2020 10-K, Page 35. Available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1070750/000156459021008676/hst-10k_20201231.htm

²⁷ Chrisophe Spanjers, Eva Steiner, “Do Private Equity Investors Create Value? Evidence from the Hotel Industry” *HEC Paris Research Paper No. FIN-2020-1410*, 2020.

²⁸ Host 2020 Corporate Responsibility Report, Page 5. Available at: https://www.hosthotels.com/-/media/hosthotels/files/downloadlinksassets/cr-highlights/host_hotels_resorts_inc_corporate_responsibility_report.pdf

²⁹ UNITE HERE employee estimate based on data obtained through collective bargaining and an industry average operating hotel staff to room ratio of .5

³⁰ Host Hotels & Resorts, Inc. (HST) CEO James Risoleo on Q1 2021 Results - Earnings Call Transcript. <https://seekingalpha.com/article/4424642-host-hotels-and-resorts-inc-hst-ceo-james-risoleo-on-q1-2021-results-earnings-call-transcript>.

³¹ Park Hotels & Resorts Inc. (PK) CEO Tom Baltimore on Q3 2020 Results - Earnings Call Transcript, 11/6/20. <https://seekingalpha.com/article/4386189-park-hotels-resorts-inc-pk-ceo-tom-baltimore-on-q3-2020-results-earnings-call-transcript>

³² Park Hotels & Resorts Inc. (PK) CEO Tom Baltimore on Q3 2020 Results -Earnings Call Transcript, 11/6/20. <https://seekingalpha.com/article/4386189-park-hotels-resorts-inc-pk-ceo-tom-baltimore-on-q3-2020-results-earnings-call-transcript>.

- Pebblebrook's CEO reported how after every down cycle, in the up cycle, "We've always peaked at both higher RevPAR levels and we've peaked at higher margins. And so this has been a continuing evolution of how we operate hotels and our business and we've always said, we expect it to continue."³³

Hotel REITs and their managers of day-to-day operations co-create workplace conditions in hotels and share the rewards and responsibilities for effectively utilizing human capital to generate value. Therefore, we urge the Commission to require property-level workforce disclosure for both hotel owners and operators. Enhanced disclosure of workforce metrics allows investors, customers, and the public to make informed decisions and conduct due diligence about the social and environmental impact of hotel operations.

For further information or discussion about enhancing disclosure in hotel companies, please contact: Dana Wise, Director of Corporate Engagement, UNITE HERE: [REDACTED]

Sincerely,



D. Taylor
International President
UNITE HERE

³³ Pebblebrook Hotel Trust's CEO Jon Bortz on Q3 2020 Results- Earnings Call Transcript.
<https://seekingalpha.com/article/4383415-pebblebrook-hotel-trusts-peb-ceo-jon-bortz-on-q3-2020-results-earnings-call-transcript>