

Do Investors Need Transparency on Sexual Harassment?

A case for supporting shareholder proposals
on the issue at hospitality REITs

April 2019

Shareholder Resolutions

- Reporting on Incidence of Sexual Harassment (UNITE HERE)
 - Sunstone Hotel Investors – May 3
 - RLJ Lodging Trust – May 3
 - Xenia Hotels & Resorts – May 21
 - Chesapeake Lodging Trust – June 19
 - Pebblebrook Hotel Trust - TBA

Pervasive & Illegal

- Sexual harassment is pervasive
- Sexual harassment has been illegal for 50 years
- Sexual harassment is a hidden liability for American industry
- Investors should know what they own

Sexual harassment

- Civil Rights Act of 1964
- EEOC rules in 1986
- Court decisions in 1986
- Provisions added to Civil Rights Act in 1991



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Sexual Harassment in Hospitality

Common Occurrence in Hospitality Work



Surveys say:

- **58%** of hotel workers have been sexually harassed by a guest
- **59%** of cocktail servers and **27%** of hotel housekeepers said they had been sexually harassed by guests, managers or others while on the job

- **42%** of women surveyed by Cosmopolitan in the restaurant industry experienced sexual harassment at work.
- Only **6% to 13%** of individuals who experience harassment file a formal complaint, says the EEOC Task Force on Harassment at Work.



Hotel REITs pay for harassment

- Hotel REITs pay for labor costs and operating expenses, so they bear financial responsibility for harassment.
- Hotel REITs don't know how often sexual harassment occurs in hotels they own.
- Operators are not reporting the scope of the problem to their owners.
- Owners cannot evaluate liabilities and effectiveness of operators they hire.

REITs take a proud role in hotel operations, sometimes

- In opposition to this resolution, REITs have argued that they cannot be involved in operations, so they cannot ask for or disclose this information
- Yet, REIT executives advertise their labor initiatives on investor calls:
 - “to further reengineer our operating models”
 - “time and motion studies”
 - “access through KSL to payroll records and everything else”
 - “a few significant tests and third parties working with us now”
 - “how housemen bring things up to the floors to housekeepers, how housekeepers work their days”

Sunstone tells investors about their labor initiatives

Marc Hoffman, Sunstone COO, Q1 2016:

- “Separately just as a side note, we continue to work aggressively at improving productivity around our portfolio. And have a few significant tests and third parties working with us now to make changes throughout our portfolio and continue to improve productivity to offset those labor challenges.”
- “We worked very aggressively with our operators beginning early in January as we saw some of the forthcoming slowdown, particularly in labor, particularly in making sure that we were managing our food and beverage areas as strongly as possible. But mostly around labor, as it makes up the majority of our costs, and taking out things that were not completely necessary and have-to-haves during the quarter.”

Xenia tells investors about their labor initiatives

Xenia COO, Barry Bloom:

- “...then on the expense side, not only have we gone through really expenses in each one of our properties, but we've found a lot of labor savings and a lot of labor efficiencies primarily in looking at how the hotels are staffed, how things move through the hotel, how housemen bring things up to the floors to housekeepers, how housekeepers work their days and how they're scheduled really matching the labor staffing in a hotel to demand levels on a day-by-day basis.” Q4 2017
- “We continue to find the best opportunities in labor productivity, food and beverage pricing and purchasing efficiencies through our internal portfolio initiatives team, which allows us to completely control this process and capture 100% of any process improvements.” Q1 2017
- “Specific examples of where we have achieved success include productivity, such as scheduling efficiencies, and time and motion studies; pricing, including refinement of on-demand guest request items and room service modifications; and purchasing, where we continue to implement cost-saving green initiatives and substitute generic or non-branded products for commodity items.” 4Q 2016

Chesapeake tells investors about their labor initiatives

Chesapeake CEO James Francis:

- “We're going to get to some pretty significant cost efficiencies pretty quickly. We have a -- we've done more diligence probably on this asset or the level of detail and the access through KSL to payroll records and everything else. So we know exactly what we're going to do day one, and so we can achieve, I think, a lot of cost efficiencies pretty quickly.”
- “...working with each management company we were able to further reengineer our operating models and despite wage pressures occurring across most markets, our overall labor expense increase is below 1%.”

Pebblebrook tells investors about their labor initiatives

Pebblebrook CEO Jon Bortz, 4Q 2016

- “As it relates to the opportunity within the portfolio, it continues to be a very significant portion of the effort of our asset management team, our senior leadership and our property teams. We continue to find efficiencies within the portfolio, so we offset some of those labor increases, frankly, with less labor, whether it be number of hours or people. It comes through combining positions, it comes through better education and training, it comes through the use of technology and using it better. All of that continues to get rolled out within the overall portfolio.

Host tells investors about labor initiatives

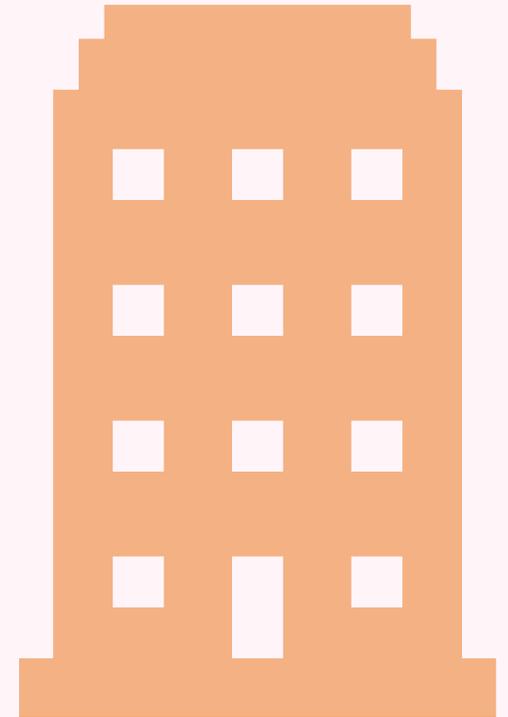
Host CEO James Risoleo, 3Q 2017:

- “...we continue to see the benefit of various initiatives focused on productivity and operational efficiency, including time and motion studies conducted by third-party consultants, expansion of brand Green Choice programs and outsourcing or restructuring a less profitable F&B operations including in room dining.”
- “So Greg also mentioned when he talked about other avenues that we're taking along with our managers to enhance productivity, like how you schedule housekeeping rooms and the green choice, I mean, we're looking for continuous and working with our managers to find new initiatives that's going to allow us to be more productive in our hotels and keep costs down.”

An Owner's Problem

Example: Sunstone's Renaissance Long Beach

- What can Sunstone do if its operator agrees to a settlement, the parties are bound by a non-disclosure agreement, and the operator continued to employ the subject of the allegations?
- Shouldn't Sunstone ask the operator to report all the incidents at that hotel and others?



YES votes will help REITs get comprehensive reporting from hotel operators

- REITs need transparency to hold operators accountable and to know what they are paying for.
- Investors need transparency to understand their risks.
- Workers need transparency to be safe.

UNITE HERE Record on REIT Governance

- 34 governance improvements were implemented at a dozen hospitality REITs since 2012, many through engagement:
 - declassifying boards,
 - majority vote standards for directors,
 - requiring shareholder approval of poison pills,
 - opting out of Maryland's anti-takeover protections, and
 - allowing shareholders to initiate bylaw amendments.
- At least 17 UNITE HERE proposals taken to a vote were approved by a majority
- Read more at: <https://www.hotelcorp.gov/our-record/>