HOST HOTELS & RESORTS, INC.
Form 10-Q
May 02, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number: 001-14625 (Host Hotels & Resorts, Inc.)

0-25087 (Host Hotels & Resorts, L.P.)

HOST HOTELS & RESORTS, INC.

HOST HOTELS & RESORTS, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Host Hotels & Resorts, Inc.) 53-008595

Delaware (Host Hotels & Resorts, L.P.)	52-2095412
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
6903 Rockledge Drive, Suite 1500	20817
Bethesda, Maryland	(Zip Code)
(Address of Principal Executive Offices)	

(240) 744-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Host Hotels & Resorts, Inc.	Yes þ	No ¨
Host Hotels & Resorts, L.P.	Yes þ	No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Host Hotels & Resorts, Inc.	Yes þ	No ¨
Host Hotels & Resorts, L.P.	Yes þ	No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Host Hotels & Resorts, Inc.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Host Hotels & Resorts, L.P.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	þ	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Host Hotels & Resorts, Inc.	Yes ¨	No þ

Host Hotels & Resorts, L.P. Yes ¨ No þ

As of May 1, 2014 there were 756,937,640 shares of Host Hotels & Resorts, Inc.'s common stock, $.01 par value per share, outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q of Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. Unless stated otherwise or the context requires otherwise, references to “Host Inc.” mean Host Hotels & Resorts, Inc., a Maryland corporation, and references to “Host L.P.” mean Host Hotels & Resorts, L.P., a Delaware limited partnership, and its consolidated subsidiaries, in cases where it is important to distinguish between Host Inc. and Host L.P. We use the terms “we” or “our” or “the company” to refer to Host Inc. and Host L.P. together, unless the context indicates otherwise.

Host Inc. operates as a self-managed and self-administered real estate investment trust (“REIT”). Host Inc. owns properties and conducts operations through Host L.P., of which Host Inc. is the sole general partner and of which it holds approximately 99% of the partnership interests (“OP units”). The remaining OP units are owned by various unaffiliated limited partners. As the sole general partner of Host L.P., Host Inc. has the exclusive and complete responsibility for Host L.P.’s day-to-day management and control. Management operates Host Inc. and Host L.P. as one enterprise. The management of Host Inc. consists of the same persons who direct the management of Host L.P. As general partner with control of Host L.P., Host Inc. consolidates Host L.P. for financial reporting purposes, and Host Inc. does not have significant assets other than its investment in Host L.P. Therefore, the assets and liabilities of Host Inc. and Host L.P. are substantially the same on their respective condensed consolidated financial statements and the disclosures of Host Inc. and Host L.P. also are substantially similar. For these reasons, we believe that the combination into a single report of the quarterly reports on Form 10-Q of Host Inc. and Host L.P. results in benefits to management and investors.

The substantive difference between Host Inc.’s and Host L.P.’s filings is the fact that Host Inc. is a REIT with public stock, while Host L.P. is a partnership with no publicly traded equity. In the condensed consolidated financial statements, this difference primarily is reflected in the equity (or partners’ capital for Host L.P.) section of the consolidated balance sheets and in the consolidated statements of equity (or partners’ capital for Host L.P.). Apart from the different equity treatment, the condensed consolidated financial statements of Host Inc. and Host L.P. nearly are identical.

This combined Form 10-Q for Host Inc. and Host L.P. includes, for each entity, separate interim financial statements (but combined footnotes), separate reports on disclosure controls and procedures and internal control over financial reporting and separate CEO/CFO certifications. In addition, with respect to any other financial and non-financial disclosure items required by Form 10-Q, any material differences between Host Inc. and Host L.P. are discussed separately herein. For a more detailed discussion of the substantive differences between Host Inc. and Host L.P. and why we believe the combined filing results in benefits to investors, see the discussion in the combined Annual Report on Form 10-K for the year ended December 31, 2013 under the heading “Explanatory Note.”

HOST HOTELS & RESORTS, INC. AND HOST HOTELS & RESORTS, L.P.

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PART I. FINANCIAL INFORMATION

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2014 and December 31, 2013

(in millions, except share and per share amounts)

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Property and equipment, net	$ 10,817	$ 10,995
Due from managers	111	52
Advances to and investments in affiliates	412	415
Deferred financing costs, net	39	42
Furniture, fixtures and equipment replacement fund	149	173
Other	256	244
Restricted cash	33	32
Cash and cash equivalents	392	861
Total assets	$ 12,209	$ 12,814
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes, including $375 million and $371 million, respectively, net of discount, of Exchangeable Senior Debentures	$ 2,872	$ 3,018
Credit facility, including the $500 million term loan	718	946
Mortgage debt	417	709
Other	86	86
Total debt	4,093	4,759
Accounts payable and accrued expenses	185	214
Other	386	389
Total liabilities	4,664	5,362
Non-controlling interests - Host Hotels & Resorts, L.P.	196	190
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value $.01, 1,050 million shares authorized; 755.3 million and 754.8 million shares issued and outstanding, respectively	8	8
Additional paid-in capital	8,494	8,492
Accumulated other comprehensive loss	(2)	(9)
Deficit	(1,189)	(1,263)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,311	7,228
Non-controlling interests—other consolidated partnerships	38	34
Total equity	7,349	7,262
Total liabilities, non-controlling interests and equity	$ 12,209	$ 12,814

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter ended March 31, 2014 and 2013

(unaudited, in millions, except per share amounts)

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
REVENUES		
Rooms	$808	$762
Food and beverage	405	369
Other	96	93
Total revenues	1,309	1,224
EXPENSES		
Rooms	226	215
Food and beverage	284	272
Other departmental and support expenses	315	307
Management fees	50	47
Other property-level expenses	97	94
Depreciation and amortization	172	173
Corporate and other expenses	34	26
Gain on insurance settlements	(3)	—
Total operating costs and expenses	1,175	1,134
OPERATING PROFIT	134	90
Interest income	1	1
Interest expense	(58)	(76)
Gain on sale of other assets	—	12
Gain on foreign currency transactions and derivatives	—	2
Equity in losses of affiliates	(8)	(2)
INCOME BEFORE INCOME TAXES	69	27
Benefit for income taxes	7	7
INCOME FROM CONTINUING OPERATIONS	76	34
Income from discontinued operations, net of tax	—	26
INCOME BEFORE GAIN ON SALE OF PROPERTY	76	60
Gain on sale of property, net of tax	109	—
NET INCOME	185	60
Less: Net income attributable to non-controlling interests	(6)	(4)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	$179	$56
Basic earnings per common share:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Basic earnings per common share	$.24	$.08
Diluted earnings per common share:		
Continuing operations	$.24	$.04

Discontinued operations	—	.04
Diluted earnings per common share	$.24	$.08

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter ended March 31, 2014 and 2013

(unaudited, in millions)

	Quarter ended March 31, 2014	2013
NET INCOME	$185	$ 60
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	7	(3)
Change in fair value of derivative instruments	—	5
OTHER COMPREHENSIVE INCOME, NET OF TAX	7	2
COMPREHENSIVE INCOME	192	62
Less: Comprehensive income attributable to non-controlling interests	(6)	(4)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS INC.	$186	$ 58

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2014 and 2013

(unaudited, in millions)

	Quarter ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	$185	$60
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(19)
Depreciation	—	4
Depreciation and amortization	172	173
Amortization of finance costs, discounts and premiums, net	6	7
Non-cash loss on extinguishment of debt	1	—
Stock compensation expense	4	4
Deferred income taxes	(11)	(5)
Gain on sale of other assets	—	(12)
Gain on sale of property	(109)	—
Gain on foreign currency transactions and derivatives	—	(2)
Equity in losses of affiliates	8	2
Change in due from managers	(58)	(21)
Changes in other assets	(9)	21
Changes in other liabilities	(18)	(36)
Cash provided by operating activities	171	176
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	274	279
Return of investment	25	—
Acquisitions	(73)	—
Advances to and investments in affiliates	(14)	(1)
Capital expenditures:		
Renewals and replacements	(76)	(87)
Redevelopment and acquisition-related investments	(14)	(36)
New development	—	(5)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	12	(3)
Cash provided by investing activities	134	147
FINANCING ACTIVITIES		
Financing costs	—	(3)
Issuances of debt	—	400
Repayment of credit facility	(225)	(100)

Repurchase/redemption of senior notes	(150)	(1)
Mortgage debt prepayments and scheduled maturities	(301)	—
Scheduled principal repayments	—	(1)
Issuance of common stock	1	103
Dividends on common stock	(98)	(65)
Contributions from non-controlling interests	—	2
Distributions to non-controlling interests	(1)	(1)
Change in restricted cash for financing activities	(1)	—
Cash provided by (used in) financing activities	(775)	334
Effects of exchange rate changes on cash held	1	1
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(469)	658
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	$392	$1,075

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2014 and 2013

(unaudited)

Supplemental disclosure of cash flow information (in millions)

	Quarter ended March 31, 2014	2013
Interest paid - periodic interest expense	$48	$ 70
Interest paid - debt extinguishments	2	—
Total interest paid	$50	$ 70
Income taxes paid	$8	$ 4

Supplemental disclosure of noncash investing and financing activities:

For the quarters ended March 31, 2014 and 2013, Host Inc. issued approximately 0.1 million shares and 0.1 million shares, respectively, upon the conversion of OP units of Host L.P. held by non-controlling partners valued at approximately $1 million and $1 million, respectively.

In March 2013, holders of approximately $174 million of the 3.25% exchangeable debentures elected to exchange their debentures for approximately 11.7 million shares of Host Inc. common stock.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2014 and December 31, 2013

(in millions)

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Property and equipment, net	$ 10,817	$ 10,995
Due from managers	111	52
Advances to and investments in affiliates	412	415
Deferred financing costs, net	39	42
Furniture, fixtures and equipment replacement fund	149	173
Other	256	244
Restricted cash	33	32
Cash and cash equivalents	392	861
Total assets	$ 12,209	$ 12,814
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes, including $375 million and $371 million, respectively, net of discount, of Exchangeable Senior Debentures	$ 2,872	$ 3,018
Credit facility, including the $500 million term loan	718	946
Mortgage debt	417	709
Other	86	86
Total debt	4,093	4,759
Accounts payable and accrued expenses	185	214
Other	386	389
Total liabilities	4,664	5,362
Limited partnership interests of third parties	196	190
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,312	7,236
Accumulated other comprehensive loss	(2)	(9)
Total Host Hotels & Resorts, L.P. capital	7,311	7,228
Non-controlling interests—consolidated partnerships	38	34
Total capital	7,349	7,262
Total liabilities, limited partnership interest of third parties and capital	$ 12,209	$ 12,814

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter ended March 31, 2014 and 2013

(unaudited, in millions, except per unit amounts)

	Quarter ended March 31, 2014	2013
REVENUES		
Rooms	$808	$762
Food and beverage	405	369
Other	96	93
Total revenues	1,309	1,224
EXPENSES		
Rooms	226	215
Food and beverage	284	272
Other departmental and support expenses	315	307
Management fees	50	47
Other property-level expenses	97	94
Depreciation and amortization	172	173
Corporate and other expenses	34	26
Gain on insurance settlements	(3)	—
Total operating costs and expenses	1,175	1,134
OPERATING PROFIT	134	90
Interest income	1	1
Interest expense	(58)	(76)
Gain on sale of other assets	—	12
Gain on foreign currency transactions and derivatives	—	2
Equity in losses of affiliates	(8)	(2)
INCOME BEFORE INCOME TAXES	69	27
Benefit for income taxes	7	7
INCOME FROM CONTINUING OPERATIONS	76	34
Income from discontinued operations, net of tax	—	26
INCOME BEFORE GAIN ON SALE OF PROPERTY	76	60
Gain on sale of property, net of tax	109	—
NET INCOME	185	60
Less: Net income attributable to non-controlling interests	(4)	(3)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	$181	$57
Basic earnings per common unit:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Basic earnings per common unit	$.24	$.08
Diluted earnings per common unit:		
Continuing operations	$.24	$.04

Discontinued operations	—	.04
Diluted earnings per common unit	$ .24	$ .08

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter ended March 31, 2014 and 2013

(unaudited, in millions)

	Quarter ended March 31, 2014	2013
NET INCOME	$ 185	$ 60
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	7	(3)
Change in fair value of derivative instruments	—	5
OTHER COMPREHENSIVE INCOME, NET OF TAX	7	2
COMPREHENSIVE INCOME	192	62
Less: Comprehensive income attributable to non-controlling interests	(4)	(3)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	$ 188	$ 59

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2014 and 2013

(unaudited, in millions)

	Quarter ended March 31, 2014	Quarter ended March 31, 2013
OPERATING ACTIVITIES		
Net income	$185	$60
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(19)
Depreciation	—	4
Depreciation and amortization	172	173
Amortization of finance costs, discounts and premiums, net	6	7
Non-cash loss on extinguishment of debt	1	—
Stock compensation expense	4	4
Deferred income taxes	(11)	(5)
Gain on sale of other assets	—	(12)
Gain on sale of property	(109)	—
Gain on foreign currency transactions and derivatives	—	(2)
Equity in losses of affiliates	8	2
Change in due from managers	(58)	(21)
Changes in other assets	(9)	21
Changes in other liabilities	(18)	(36)
Cash provided by operating activities	171	176
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	274	279
Return of investment	25	—
Acquisitions	(73)	—
Advances to and investments in affiliates	(14)	(1)
Capital expenditures:		
Renewals and replacements	(76)	(87)
Redevelopment and acquisition-related investments	(14)	(36)
New development	—	(5)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	12	(3)
Cash provided by investing activities	134	147
FINANCING ACTIVITIES		
Financing costs	—	(3)
Issuances of debt	—	400
Repayment of credit facility	(225)	(100)

Repurchase/redemption of senior notes	(150)	(1)
Mortgage debt prepayments and scheduled maturities	(301)	—
Scheduled principal repayments	—	(1)
Issuance of common OP units	1	103
Distributions on common OP units	(99)	(66)
Contributions from non-controlling interests	—	2
Change in restricted cash for financing activities	(1)	—
Cash provided by (used in) financing activities	(775)	334
Effects of exchange rate changes on cash held	1	1
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(469)	658
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	$392	$1,075

See notes to condensed consolidated statements

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2014 and 2013

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Quarter ended March 31, 2014	2013
Interest paid - periodic interest expense	$48	$ 70
Interest paid - debt extinguishments	2	—
Total interest paid	$50	$ 70
Income taxes paid	$8	$ 4

Supplemental disclosure of noncash investing and financing activities:

For the quarters ended March 31, 2014 and 2013, limited partners converted OP units valued at approximately $1 million and $1 million, respectively, in exchange for approximately 0.1 million and 0.1 million shares, respectively, of Host Inc. common stock.

In March 2013, holders of approximately $174 million of the 3.25% exchangeable debentures elected to exchange their debentures for approximately 11.7 million shares of Host Inc. common stock. In connection with the debentures exchanged for Host Inc. common stock, Host L.P. issued 11.5 million common OP units.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Description of Business

Host Hotels & Resorts, Inc. operates as a self-managed and self-administered real estate investment trust ("REIT"), with its operations conducted solely through Host Hotels & Resorts, L.P. and its subsidiaries. Host Hotels & Resorts, L.P., a Delaware limited partnership, operates through an umbrella partnership structure, with Host Hotels & Resorts, Inc., a Maryland corporation, as its sole general partner. In the notes to the condensed consolidated financial statements, we use the terms "we" or "our" to refer to Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. together, unless the context indicates otherwise. We also use the term "Host Inc." specifically to refer to Host Hotels & Resorts, Inc. and the term "Host L.P." specifically to refer to Host Hotels & Resorts, L.P. in cases where it is important to distinguish between Host Inc. and Host L.P. As of March 31, 2014, Host Inc. holds approximately 99% of Host L.P.'s OP units.

Consolidated Portfolio

As of March 31, 2014, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

	Hotels
United States	99
Australia	1
Brazil	1
Canada	3
Chile	2
Mexico	1
New Zealand	7
Total	114

Joint Ventures

We own a non-controlling interest in a joint venture in Europe ("Euro JV") that owns hotels in two separate funds. We own a 32.1% interest in the first fund ("Euro JV Fund I") (11 hotels) and a 33.4% interest in the second fund ("Euro JV Fund II") (8 hotels).

As of March 31, 2014, the Euro JV owned hotels located in the following countries:

	Hotels

Belgium	3
France	4
Germany	1
Italy	3
Poland	1
Spain	2
Sweden	1
The Netherlands	2
United Kingdom	2
Total	19

In addition, our joint venture in Asia (“Asia/Pacific JV”), in which we own a 25% non-controlling interest, owns one hotel in Australia and a non-controlling interest in an entity with two hotels operational and five additional hotels in various stages of development in India.

2. Summary of Significant Accounting Policies

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made herein are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10–K for the year ended December 31, 2013.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of March 31, 2014, and the results of our operations and cash flows for the quarters ended March 31, 2014 and 2013, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform with the current year presentation.

Application of New Accounting Standard

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosure of Disposal of Components of an Entity ("ASU 2014-08 Reporting for Discontinued Operations.") Under this standard, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. In addition, it requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. As a result, the operations of sold properties through the date of their disposal will be included in continuing operations, unless the sale represents a strategic shift. However, the gain or loss on the sale of a hotel will be reported separately below income from continuing operations. We adopted this standard as of January 1, 2014. No prior year restatements are permitted for this change in policy. For purposes of earnings per share calculation, beginning in 2014 gains and losses on property sales will be included in continuing operations.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Earnings Per Common Share (Unit)

Host Inc. Earnings Per Common Share

Basic earnings per common share is computed by dividing net income attributable to common stockholders by the weighted average number of shares of Host Inc. common stock outstanding. Diluted earnings per common share is computed by dividing net income attributable to common stockholders, as adjusted for potentially dilutive securities, by the weighted average number of shares of Host Inc. common stock outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per common share is shown below (in millions, except per share amounts):

	Quarter ended March 31,	
	2014	2013
Net income	$185	$60
Less: Net income attributable to non-controlling interests	(6)	(4)
Net income attributable to Host Inc.	179	56
Assuming conversion of exchangeable senior debentures	7	—
Diluted income attributable to Host Inc.	$186	$56
Basic weighted average shares outstanding	754.9	728.2
Assuming weighted average shares for conversion of exchangeable senior debentures	29.9	9.9
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.3	0.5
Diluted weighted average shares outstanding (1)	785.1	738.6
Basic earnings per common share	$.24	$.08
Diluted earnings per common share	$.24	$.08

(1) There were approximately 29 million potentially dilutive shares for the quarter ended March 31, 2013, related to our exchangeable senior debentures, which shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the period. Income allocated to non-controlling interests in Host L.P. has been excluded from the numerator and common OP units in Host L.P. have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts

would have no impact.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Host L.P. Earnings Per Common Unit

Basic earnings per common unit is computed by dividing net income attributable to common unitholders by the weighted average number of common units outstanding. Diluted earnings per common unit is computed by dividing net income attributable to common unitholders, as adjusted for potentially dilutive securities, by the weighted average number of common units outstanding plus other potentially dilutive securities. Dilutive securities may include units issued to Host Inc. to support Host Inc. common shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per unit is shown below (in millions, except per unit amounts):

	Quarter ended March 31,	
	2014	2013
Net income	$185	$60
Less: Net income attributable to non-controlling interests	(4)	(3)
Net income attributable to Host L.P.	181	57
Assuming conversion of exchangeable senior debentures	7	—
Diluted income attributable to Host L.P.	$188	$57
Basic weighted average units outstanding	748.5	722.7
Assuming weighted average units for conversion of exchangeable senior debentures	29.3	9.6
Assuming distribution of common units granted under the comprehensive stock plans, less units assumed purchased at market	0.3	0.5
Diluted weighted average units outstanding (1)	778.1	732.8
Basic earnings per common unit	$.24	$.08
Diluted earnings per common unit	$.24	$.08

(1) There were approximately 29 million potentially dilutive units for the quarter ended March 31, 2013, related to our exchangeable senior debentures, which units were not included in the computation of diluted earnings per unit because to do so would have been anti-dilutive for the period.

4. Property and Equipment

Property and equipment consists of the following (in millions):

	March 31, 2014	December 31, 2013
Land and land improvements	$ 1,995	$ 1,973
Buildings and leasehold improvements	13,283	13,435
Furniture and equipment	2,194	2,223
Construction in progress	153	176
	17,625	17,807
Less accumulated depreciation and amortization	(6,808)	(6,812)
	$ 10,817	$ 10,995

5. Debt

Mortgage debt: On February 28, 2014, we repaid the $300 million mortgage loan secured by The Ritz-Carlton, Naples and Newport Beach Marriott Hotel, at maturity.

Senior notes: In February 2014, we redeemed the remaining $150 million 6¾ Series Q senior notes due 2016 for an aggregate price of $152 million.

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Credit facility: On January 10, 2014, we repaid $225 million on the revolver portion of our credit facility and as of March 31, 2014, we have $782 million of available capacity.

6. Equity of Host Inc. and Capital of Host L.P.

Equity of Host Inc.

Equity of Host Inc. is allocated between controlling and non-controlling interests as follows (in millions):

	Equity of Host Inc.	Non-redeemable non-controlling interests	Total equity	Redeemable non-controlling interests
Balance, December 31, 2013	$7,228	$ 34	$7,262	$ 190
Net income	179	4	183	2
Issuance of common stock	8	—	8	—
Dividends declared on common stock	(106)	—	(106)	—
Distributions to non-controlling interests	—	—	—	(1)
Other changes in ownership	(5)	—	(5)	5
Other comprehensive income	7	—	7	—
Balance, March 31, 2014	$7,311	$ 38	$7,349	$ 196

Capital of Host L.P.

As of March 31, 2014, Host Inc. is the owner of approximately 99% of Host L.P.'s common OP units. The remaining common OP units are held by third party limited partners. Each OP unit may be redeemed for cash or, at the election of Host Inc., Host Inc. common stock, based on the conversion ratio of 1.021494 shares of Host Inc. common stock for each OP unit.

In exchange for any shares issued by Host Inc., Host L.P. will issue OP units to Host Inc. based on the applicable conversion ratio. Additionally, funds used by Host Inc. to pay dividends on its common stock are provided by distributions from Host L.P.

Capital of Host L.P. is allocated between controlling and non-controlling interests as follows (in millions):

Limited

	Capital of Host L.P	Non-controlling Interests	Total Capital	Partnership Interests of Third Parties
Balance, December 31, 2013	$7,228	$ 34	$7,262	$ 190
Net income	179	4	183	2
Issuance of common OP units	8	—	8	—
Distributions declared on common OP units	(106)	—	(106)	(1)
Distributions to non-controlling interests	—	—	—	—
Other changes in ownership	(5)	—	(5)	5
Other comprehensive income	7	—	7	—
Balance, March 31, 2014	$7,311	$ 38	$7,349	$ 196

For Host Inc. and Host L.P., there were no material amounts reclassified out of accumulated other comprehensive income (loss) to net income for the quarter ended March 31, 2014.

Dividends/Distributions

On February 18, 2014, Host Inc.'s Board of Directors declared a regular dividend of $0.14 per share on its common stock. The dividend was paid on April 15, 2014 to stockholders of record as of March 31, 2014. Accordingly, Host L.P. made a distribution of $0.14300916 per unit on its common OP units based on the current conversion ratio.

7. Dispositions

Effective January 1, 2014, we adopted ASU 2014-08 Reporting for Discontinued Operations. As a result, operations of hotels sold subsequent to December 31, 2013 will continue to be reported in continuing operations, while gains (losses) on sale will be included in Gain on sale of property, net of tax below continuing operations. The results of properties sold in 2013, including the gain (loss) on sale, prior to adoption will continue to be reported in discontinued operations.

During the first quarter of 2014, we sold an 89% controlling interest in the Philadelphia Marriott Downtown. As a result, the hotel is not consolidated in our financial statements. Additionally, we disposed of the Courtyard Nashua for approximately $10 million. We recognized a gain of $109 million related to the sale of these two hotels, net of tax. During the first quarter of 2013, we disposed of one property for a net gain of $19 million.

The following table provides summary results of operations for the five hotels sold in 2013 which have been included in discontinued operations (in millions):

	Quarter ended March 31, 2013
Revenues	$ 34
Income before income taxes	11
Gain on disposition, net of tax	19

8. Acquisitions

On January 21, 2014, we acquired the 151-room Powell Hotel in San Francisco, California, including retail space and the fee simple interest in the land, for approximately $75 million. Accounting for the acquisition requires an allocation of the purchase price to the assets acquired and the liabilities assumed at their respective estimated fair values. The purchase price allocations are estimated based on current available information; however, we still are in the process of obtaining appraisals and finalizing the accounting for the acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed related to this acquisition (in millions):

Property and equipment	$73
Other assets	2
Total assets	75
Other liabilities	—
Net assets acquired	$75

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Our summarized unaudited consolidated pro forma results of operations, assuming the acquisition completed during 2014 occurred on January 1, 2013, are as follows (in millions, except per share and per unit amounts):

	Quarter ended March 31,	
	2014	2013
Revenues	$1,309	$1,226
Income from continuing operations	77	35
Net income	186	61
Host Inc.:		
Net income attributable to Host Inc.	$180	$57
Basic earnings per common share:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Basic earnings per common share	$.24	$.08
Diluted earnings per common share:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Diluted earnings per common share	$.24	$.08
Host L.P.:		
Net income attributable to Host L.P.	$182	$58
Basic earnings per common unit:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Basic earnings per common unit	$.24	$.08
Diluted earnings per common unit:		
Continuing operations	$.24	$.04
Discontinued operations	—	.04
Diluted earnings per common unit	$.24	$.08

The above pro forma results of operations exclude $1 million of acquisition costs for the quarter ended March 31, 2014. The condensed consolidated statements of operations for the quarter ended March 31, 2014 include approximately $1 million of revenues and $0.2 million of net income for the quarter related to our 2014 acquisition.

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9. Fair Value Measurements

The following tables detail the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis, as well as non-recurring fair value measurements, at March 31, 2014 and December 31, 2013, respectively (in millions):

	Balance at March 31, 2014	Fair Value at Measurement Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Foreign currency forward sale contracts [1]	$2	$ —	$ 2	$ —
Liabilities				
Interest rate swap derivatives [1]	(3)	—	(3)	—
Foreign currency forward sale contracts [1]	(5)	—	(5)	—

	Balance at December 31, 2013	Fair Value at Measurement Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Interest rate swap derivatives [1]	$1	$ —	$ 1	$ —
Foreign currency forward sale contracts [1]	3	—	3	—
Liabilities				
Interest rate swap derivatives [1]	(3)	—	(3)	—
Foreign currency forward sale contracts [1]	(6)	—	(6)	—
Fair Value Measurements on a Non-recurring Basis:				
Impaired hotel properties held and used [2]	9	—	—	9

(1) These derivative contracts have been designated as hedging instruments.
(2) The fair value measurements are as of the measurement date of the impairment and may not reflect subsequent book values.

Derivatives and Hedging

Interest rate swap derivatives designated as cash flow hedges. We have designated our floating-to-fixed interest rate swap derivatives as cash flow hedges. The purpose of the interest rate swaps is to hedge against changes in cash flows (interest payments) attributable to fluctuations in variable rate debt. The derivatives are valued based on the prevailing market yield curve on the date of measurement. We also evaluate counterparty credit risk when we calculate the fair value of the swaps. Changes in the fair value of the derivatives are recorded to accumulated other comprehensive income (loss) within the equity portion of our balance sheets. The hedges were fully effective as of March 31, 2014.

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The following table summarizes our interest rate swap derivatives designated as cash flow hedges (in millions):

Transaction Date	Total Notional Amount		Maturity Date	Swapped Index	All-in-Rate		Change in Fair Value Gain (Loss) Quarter ended March 31, 2014	2013
November 2011 [1]	A$	62	November 2016	Reuters BBSY	6.7	%	$ —	$ 1
February 2011 [2]	NZ$	79	February 2016	NZ$ Bank Bill	7.15	%	$ —	$ —

(1) The swap was entered into in connection with the A$82 million ($76 million) mortgage loan on the Hilton Melbourne South Wharf.
(2) The swap was entered into in connection with the NZ$105 million ($91 million) mortgage loan on seven properties in New Zealand.

Interest rate swap derivatives designated as fair value hedges. We had three fixed-to-floating interest rate swap agreements with an aggregate notional amount totaling $300 million that matured on March 1, 2014. During the quarter ended March 31, 2013, the fair value of the swaps decreased $1 million.

Foreign Investment Hedging Instruments. We have five foreign currency forward sale contracts that hedge a portion of the foreign currency exposure resulting from the eventual repatriation of our net investment in foreign operations. These derivatives are considered hedges of the foreign currency exposure of a net investment in a foreign operation and are marked-to-market with changes in fair value recorded to accumulated other comprehensive income (loss) within the equity portion of our balance sheets. The forward sale contracts are valued based on the forward yield curve of the foreign currency to U.S. dollar forward exchange rate on the date of measurement. We also evaluate counterparty credit risk when we calculate the fair value of the derivatives.

The following table summarizes our foreign currency sale contracts (in millions):

Currently Outstanding	Change in Fair Value - All Contracts

Transaction Date Range	Total Transaction Amount in Foreign Currency	Total Transaction Amount in Dollars	Forward Purchase Date Range	Gain (Loss) Quarter ended March 31, 2014	2013
May 2008-January 2013	€120	$ 163	May 2014-January 2016	$ —	$ 3

In addition to the forward sale contracts, we have designated a portion of the foreign currency draws on our credit facility as hedges of net investments in foreign operations. Changes in fair value in the designated credit facility draws are recorded to accumulated other comprehensive income (loss) within the equity portion of our balance sheets.

The following table summarizes the draws on our credit facility that are designated as hedges of net investments in foreign operations (in millions):

Currency	Balance Outstanding US$	Balance Outstanding in Foreign Currency	Gain (Loss) Quarter ended March 31, 2014	2013
Canadian dollars (1)	$ 28	C$ 31	$ 1	$ 1
Euros	$ 102	€ 74	$ —	$ 1

(1) We have an additional $69 million outstanding on the credit facility in Canadian dollars that has not been designated as a hedging instrument.

Other Liabilities

Fair Value of Other Financial Liabilities. We did not elect the fair value measurement option for any of our other financial liabilities. Valuations for secured debt and our credit facility are determined based on the expected future payments discounted at risk-adjusted rates. Senior Notes and the Exchangeable Senior Debentures are valued based on quoted market prices. The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts.

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The fair value of certain financial liabilities are shown below (in millions):

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Senior notes (Level 1)	$2,497	$2,679	$2,647	$2,766
Exchangeable Senior Debentures (Level 1)	375	622	371	603
Credit facility (Level 2)	718	718	946	946
Mortgage debt and other, excluding capital leases (Level 2)	501	515	793	802

10. Geographic Information

We consider each of our hotels to be an operating segment, none of which meets the threshold for a reportable segment. We also allocate resources and assess operating performance based on individual hotels. All of our other real estate investment activities (primarily office buildings and apartments) are immaterial and, with our operating segments, meet the aggregation criteria, and thus, we report one segment: hotel ownership. Our consolidated foreign operations consist of hotels in six countries. There were no intersegment sales during the periods presented.

The following table presents total revenues and property and equipment for each of the geographical areas in which we operate (in millions):

	Revenues Quarter ended March 31,		Property and Equipment, net	
	2014	2013	March 31, 2014	December 31, 2013
United States	$1,243	$1,159	$10,312	$ 10,498
Australia	9	10	111	106
Brazil	7	8	80	76
Canada	19	21	84	89
Chile	9	8	51	54
Mexico	7	6	32	32
New Zealand	15	12	147	140
Total	$1,309	$1,224	$10,817	$ 10,995

11. Non-controlling Interests

Other Consolidated Partnerships. We consolidate six majority-owned partnerships that have third-party, non-controlling ownership interests. The third-party partnership interests are included in non-controlling interests — other consolidated partnerships on the condensed consolidated balance sheets and totaled $38 million and $34 million as of March 31, 2014 and December 31, 2013, respectively. Two of the partnerships have finite lives that terminate between 2081 and 2095, and the associated non-controlling interests are mandatorily redeemable at our option at the end of, but not prior to, the finite life. At March 31, 2014 and December 31, 2013, the fair values of the non-controlling interests in the partnerships with finite lives were approximately $72 million and approximately $68 million, respectively.

Net income (loss) attributable to non-controlling interests of consolidated partnerships is included in our determination of net income (loss). Net income attributable to non-controlling interests of third parties, which is included in the determination of net income (loss) attributable to Host Inc. and Host L.P., was $4 million and $3 million for the quarters ended March 31, 2014 and 2013, respectively.

Host Inc.'s treatment of the non-controlling interests of Host L.P.: Host Inc. adjusts the non-controlling interests of Host L.P. each period so that the amount presented equals the greater of its carrying value based on accumulated historical cost or its redemption value. The historical cost is based on the proportional relationship between the historical cost of equity held by our common stockholders relative to that of the unitholders of Host L.P. The redemption value is based on the amount of cash or Host Inc. common stock, at our option, that would be paid to the non-controlling interests of Host L.P. if it were terminated. Therefore, the redemption value of the common OP units is equivalent to the number of shares that would be issued upon conversion of the common OP units held by third parties valued at the market price of Host Inc. common stock at the balance sheet date. One common OP unit may be exchanged into 1.021494 shares of Host Inc. common stock. Non-controlling interests of Host L.P. are classified in the mezzanine section of our balance sheet as they do not meet the requirements for equity classification because the redemption feature requires the delivery of registered shares.

The table below details the historical cost and redemption values for the non-controlling interests:

	March 31, 2014	December 31, 2013
OP units outstanding (millions)	9.5	9.5
Market price per Host Inc. common share	$20.24	$19.44
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	$196	$190
Historical cost (millions)	95	95
Book value (millions) (1)	196	190

(1) The book value recorded is equal to the greater of redemption value or historical cost.

Net income (loss) is allocated to the non-controlling interests of Host L.P. based on their weighted average ownership interest during the period. Net income attributable to Host Inc. has been reduced by the amount attributable to non-controlling interests of Host L.P. The net income attributable to the non-controlling interests of Host L.P. was $2 million and $1 million for the quarters ended March 31, 2014 and 2013, respectively.

12. Legal Proceedings

We are involved in various legal proceedings in the normal course of business regarding the operation of our hotels and company matters. To the extent not covered by insurance, these legal proceedings generally fall into the following broad categories: disputes involving hotel-level contracts, employment litigation, compliance with laws such as the Americans with Disabilities Act, tax disputes and other general matters. Under our management agreements, our operators have broad latitude to resolve individual hotel-level claims for amounts generally less than $150,000. However, for matters exceeding such threshold, our operators may not settle claims without our consent.

Excluding the San Antonio litigation discussed below, based on our analysis of legal proceedings with which we currently are involved or of which we are aware and our experience in resolving similar claims in the past, we have accrued approximately $23 million as of March 31, 2014 for liabilities related to legal proceedings and estimate that, in the aggregate, our losses related to these proceedings could be as much as $50 million. We believe this range represents the maximum potential loss for all of our legal proceedings. We are not aware of any other matters with a reasonably possible unfavorable outcome for which disclosure of a loss contingency is required. No assurances can be given as to the outcome of any pending legal proceedings.

We also have accrued a loss contingency of approximately $69 million related to the litigation concerning the ground lease for the San Antonio Marriott Rivercenter. On May 16, 2012, we filed a Petition for review in the Texas Supreme Court and provided briefing on the merits, which were concluded in January 2013. On June 28, 2013, the Court issued an order denying the petition for review; however, on December 13, 2013, the Court granted our motion for rehearing on that order and heard oral arguments on our appeal on February 4, 2014. No assurances can be given as to the outcome of this appeal. In relation to this legal proceeding, we previously funded a court-ordered $25 million escrow reserve, which is included in restricted cash. For further details on this legal proceeding, see Part I, Item 3, Legal Proceedings, of our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this report. Host Inc. operates as a self-managed and self-administered REIT. Host Inc. is the sole general partner of Host L.P. and holds approximately 99% of its partnership interests. Host L.P. is a limited partnership operating through an umbrella partnership structure. The remaining common OP units are owned by various unaffiliated limited partners.

Forward-Looking Statements

In this report on Form 10-Q, we make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "expect," "may," "intend," "predict," "project," "plan," "will," "estimate" and other similar phrases, including references to assumptions and forecasts of future results. Forward-looking statements are based on management's current expectations and assumptions and are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results to differ materially from those anticipated at the time the forward-looking statements are made.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the effect on lodging demand of (i) changes in national and local economic and business conditions, including concerns about global economic prospects and the speed and strength of a recovery, and (ii) other factors such as natural disasters, weather, changes in the international political climate, and the occurrence or potential occurrence of terrorist attacks, all of which will affect occupancy rates at our hotels and the demand for hotel products and services;
- operating risks associated with the hotel business, including the effect of increasing labor costs or changes in workplace rules that affect labor costs;
- the continuing volatility in global financial and credit markets, and the impact of budget deficits and pending and future U.S. governmental action to address such deficits through reductions in spending and similar austerity measures, which could materially adversely affect U.S. and global economic conditions, business activity, credit availability, borrowing costs, and lodging demand;
- the impact of geopolitical developments outside the U.S., such as the sovereign credit issues in certain countries in the European Union, or unrest in the Middle East, which could affect the relative volatility of global credit markets generally, global travel and lodging demand, including for our foreign hotel properties;
- the effect of rating agency downgrades of our debt securities on the cost and availability of new debt financings;
- the reduction in our operating flexibility and the limitation on our ability to pay dividends and make distributions resulting from restrictive covenants in our debt agreements, which limit the amount of distributions from Host L.P. to Host Inc., and other risks associated with the level of our indebtedness or related to restrictive covenants in our debt agreements, including the risk of default that could occur;
- our ability to maintain our properties in a first-class manner, including meeting capital expenditures requirements, and the effect of renovations on our hotel occupancy and financial results;
- our ability to compete effectively in areas such as access, location, quality of accommodations and room rate structures;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with our expectations;
- relationships with property managers and joint venture partners and our ability to realize the expected benefits of our joint ventures and other strategic relationships;
- our ability to recover fully under our existing insurance policies for terrorist acts and our ability to maintain adequate or full replacement cost "all-risk" property insurance policies on our properties on commercially reasonable terms;

- the effects of tax legislative action and other changes in laws and regulations, or the interpretation thereof, including the need for compliance with new environmental and safety requirements; and

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· the ability of Host Inc. and each of the REIT entities acquired, established or to be established by Host Inc. to continue to satisfy complex rules in order to qualify as REITs for federal income tax purposes, Host L.P's ability to satisfy the rules required to maintain its status as a partnership for federal income tax purposes, and Host Inc.'s and Host L.P.'s ability and the ability of our subsidiaries, and similar entities to be acquired or established by us, to operate effectively within the limitations imposed by these rules.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions, including those risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2013 and in other filings with the Securities and Exchange Commission ("SEC"). Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material.

Operating Results and Outlook

Operating Results

The following table reflects certain line items from our statement of operations and significant operating statistics (in millions, except per share and hotel statistics):

Historical Income Statement Data:

	Quarter ended March 31, 2014	2013	% Change 2013 to 2014
Total revenues	$1,309	$1,224	6.9 %
Net income	185	60	208.3 %
Operating profit	134	90	48.9 %
Operating profit margin under GAAP	10.2 %	7.4 %	280 bps
Adjusted EBITDA [1]	$308	$283	8.8 %
Diluted earnings per share	$.24	$.08	200.0 %
NAREIT FFO per diluted share [1]	.32	.29	10.3 %
Adjusted FFO per diluted share [1]	.33	.28	17.9 %

Comparable Hotel Data:

	2014 Comparable Hotels [2] Quarter ended March 31, 2014	2013	Change 2013 to 2014
Comparable hotel revenues [1]	$1,204	$1,126	6.9 %
Comparable hotel operating profit [1]	289	257	12.5 %
Comparable hotel adjusted operating profit margin [1]	24.0 %	22.8 %	120 bps
Change in comparable hotel RevPAR - Constant US$	6.8 %		
Change in comparable hotel RevPAR - Nominal US$	6.2 %		
Change in comparable domestic RevPAR	6.6 %		

Change in comparable international RevPAR - Constant US$	10.3	%

(1) Adjusted EBITDA, NAREIT and Adjusted FFO per diluted share and comparable hotel operating results (including comparable hotel revenues and comparable hotel adjusted operating profit and margins) are non-GAAP (U.S. generally accepted accounting principles) financial measures within the meaning of the rules of the SEC. See "-Non-GAAP Financial Measures" for more information on these measures, including why we believe these supplemental measures are useful, reconciliations to the most directly comparable GAAP measure, and the limitations on the use of these supplemental measures.

(2) Comparable hotel operating statistics for 2014 and 2013 are based on 109 hotels as of March 31, 2014.

Total revenues increased $85 million to $1.3 billion for the first quarter driven by an increase in rooms revenues of $46 million and food and beverage revenue of $36 million. The growth in operating results were driven by an increase in comparable RevPAR of 6.8% on a constant US$ basis, reflecting strong growth in average room rates coupled with continued improvements in occupancy, and an increase of 9.4% in comparable food and beverage operations. The growth in room revenues was primarily driven by a strong increase in group business, particularly in New York and several of our west coast markets, which helped our operators shift the mix of business to higher-rated transient business. Additionally, this increase in group business helped drive a 13.5% increase in comparable food and beverage banquet and audio/visual revenues. On a nominal US$ basis, which includes the effect of foreign currency fluctuations, comparable hotel RevPAR increased 6.2% for the first quarter.

Operating profit margins (calculated based on GAAP operating profit as a percentage of GAAP revenues) increased 280 basis points to 10.2% for the first quarter of 2014. These operating profit margins are affected significantly by several items, including operations from recently acquired hotels, depreciation, impairments, and corporate expenses. Our comparable hotel adjusted operating profit margins, which exclude these items, increased 120 basis points to 24.0%. These improvements were driven by the increase in average room rate, as well as a 21.1% increase in comparable food and beverage profit, reflecting the increase in the more profitable banquet and audio/visual business.

The trends and transactions described for Host Inc. affected similarly the operating results for Host L.P, as the only significant difference between the Host Inc. and the Host L.P. statements of operations relates to the treatment of income attributable to the third party limited partners of Host L.P. For the first quarter, net income for Host Inc. and Host L.P. improved $125 million to $185 million from the same period in the prior year. Net income benefited from the improvement in operating profit, as well as a decrease in interest expense of $18 million due to the repayment or refinancing of debt at lower interest rates, and an increase in gains on property transactions and other of $100 million. During the first quarter of 2014, Host Inc.'s diluted income per common share improved $0.16 per common share to $0.24 per common share. Host L.P.'s diluted income per common unit improved $0.16 per common unit to $0.24 per common unit.

Host Inc.'s Adjusted FFO per diluted share increased 17.9% to $.33 per diluted share for the first quarter of 2014. Adjusted EBITDA, which is defined as EBITDA adjusted for gains and losses related to real estate transactions, impairment expense, and other items, increased $25 million, or 8.8%, to $308 million.

Outlook

For the remainder of 2014, we believe that the broad economic trends that have translated into the steady improvement in lodging demand should continue to drive RevPAR growth and operating results. Specifically, based on our current group bookings, we believe increasing group demand will allow our operators to shift the business mix to higher-rated corporate group and transient demand, as opposed to lower-rated transient discount business, helping to drive profitability. As a result, we believe the majority of the RevPAR growth will be driven by improvements in average rate, and we expect occupancy growth will be similar to that experienced in 2013. For the full year 2014, we believe these trends will result in improved operating performance and comparable hotel RevPAR growth on a constant US$ basis of 5% to 6%. We anticipate that comparable food and beverage and other revenue will increase approximately 4% to 5% in 2014 driven in part by the expected increase in group demand.

While we believe that the lodging industry will continue to improve, there can be no assurances that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower than anticipated growth in the economy and changes in travel patterns.

Investing activities

Acquisitions. We continue to seek investment opportunities in our target markets, which we have identified as those that are expected to have the greatest lodging demand growth, the fewest additions to supply, and consequently the strongest potential for revenue growth. We see increased competition for acquisitions in our target markets due to an abundance of capital and the current availability of inexpensive financing. Consequently, pricing for upper upscale and luxury assets has become more aggressive, and recent transaction values have approached replacement cost levels. Our acquisition strategy also includes the acquisition or development of midscale and upscale properties in select target markets. During the first quarter, we completed the acquisition of the 151-room Powell Hotel in San Francisco, including retail space and the fee simple interest in the land, for approximately $75 million. The property includes a significant long-term retail lease with Sephora, a leading provider of perfume and cosmetics. We intend to invest approximately $22 million in an extensive redevelopment of the property beginning early 2015.

Dispositions. We attempt to dispose of properties which are considered non-core assets when we believe the potential for growth is constrained or where we are able opportunistically to take advantage of the pricing in the market. On January 10, 2014, we sold an 89% interest in the Philadelphia Marriott Downtown based on a market value of $303 million. On February 12, 2014, we sold the Courtyard Nashua for a sales price of $10 million.

Capital Expenditures Projects. We continue to pursue opportunities to enhance asset value through select capital improvements, including projects that are designed specifically to increase the eco-efficiency of our hotels, incorporate elements of sustainable design and replace aging equipment and systems with more efficient technology. During the first quarter, we have completed renovations of 1,800 guestrooms, over 100,000 square feet of meeting space and approximately 42,000 square feet of public space.

- Redevelopment and Return on Investment Capital Expenditures. Redevelopment and ROI projects primarily consist of large-scale redevelopment projects designed to increase cash flow and improve profitability by capitalizing on changing market conditions and the favorable locations of our properties, including projects such as the redevelopment of a hotel, repositioning of a hotel restaurant or the installation of energy efficient systems. During the first quarter of 2014 and 2013, we invested $11 million and $21 million, respectively, on redevelopment and ROI projects, of which $5 million in 2014 was invested in restaurant repositionings and energy projects. During 2014, we plan to spend between $70 million and $80 million for redevelopment and ROI projects. Significant redevelopment and ROI capital expenditures completed during the first quarter included the expansion of the 9,000 square foot Willow Stream Spa at The Fairmont Kea Lani, Maui and the repositioning of the Cast & Plow restaurant and public space at The Ritz-Carlton, Marina del Rey.
- Acquisition Capital Expenditures. In conjunction with the acquisition of a property, we prepare capital and operational improvement plans designed to maximize profitability. During the first quarter of 2014 and 2013, we spent approximately $3 million and $15 million, respectively, on acquisition capital projects and expect to invest between $30 million and $35 million during 2014. During the first quarter, we completed the first phase of the renovation of over 100,000 square feet of meeting space and expansion of the fitness center at the Manchester Grand Hyatt San Diego.
- Renewal and Replacement Capital Expenditures. We spent $76 million and $87 million on renewal and replacement capital expenditures during the first quarter of 2014 and 2013, respectively. These expenditures are designed to ensure that our high standards for product quality are maintained and to enhance the overall competitiveness of our properties in the marketplace. During the first quarter of 2014, we completed the renovation of all guest rooms at The Westin Indianapolis and the Newport Beach Marriott Hotel & Spa and almost 12,000 square feet of public space at the Sheraton San Diego Hotel & Marina. We expect that our investment in renewal and replacement expenditures in 2014 will total approximately $320 million to $340 million.

Financing activities

Debt Transactions. During the quarter, we completed the following transactions:

- On February 28, 2014, we repaid the $300 million mortgage loan secured by The Ritz-Carlton, Naples and Newport Beach Marriott Hotel at maturity.
- In February 2014, we redeemed $150 million of our 6¾% Series Q senior notes due 2016 for an aggregate price of $152 million.
- On January 10, 2014, we repaid $225 million on the revolver portion of our credit facility and currently have $782 million of remaining available capacity.

Results of Operations

The following tables reflect certain line items from our statements of operations (in millions, except percentages):

	Quarter ended March 31,		% Change 2013 to 2014	
	2014	2013		
Total revenues	$1,309	$1,224	6.9	%
Operating costs and expenses:				
Property-level costs [(1)]	1,144	1,108	3.2	
Corporate and other expenses	34	26	30.8	
Operating profit	134	90	48.9	
Interest expense	58	76	(23.7	)
Benefit for income taxes	7	7	—	
Income from continuing operations	76	34	123.5	
Income from discontinued operations	—	26	N/M	
Gain on sale of property, net of tax	109	—	N/M	
Host Inc.:				
Net income attributable to non-controlling interests	$6	$4	50.0	%
Net income attributable to Host Inc.	179	56	219.6	
Host L.P.:				
Net income attributable to non-controlling interests	$4	$3	33.3	%
Net income attributable to Host L.P.	181	57	217.5	

(1) Amount represents total operating costs and expenses from our unaudited condensed consolidated statements of operations less corporate and other expenses and gain on insurance settlements.

N/M=Not meaningful.

2014 Compared to 2013

The comparisons of our hotel revenues and expenses are affected by the results of the hotels acquired and sold during the comparable periods (collectively, our “Recent Acquisitions and Dispositions”). Our first quarter 2014 operations benefited from the results of the Powell Hotel, acquired in January 2014 and the Hyatt Place Waikiki Beach, acquired in May 2013. This was offset by the results for two hotels sold in 2014, which operations prior to sale now are included in continuing operations due to the adoption of ASU 2014-08 Reporting for Discontinued Operations.

Hotel Sales Overview

The following table presents total revenues (in millions, except percentages) and includes both comparable and non-comparable hotels:

	Quarter ended March 31,		% Change 2013 to 2014
	2014	2013	
Revenues:			
Rooms	$808	$762	6.0 %
Food and beverage	405	369	9.8
Other	96	93	3.2
Total revenues	$1,309	$1,224	6.9

Rooms. Rooms revenues increased $46 million, or 6.0%, to $808 million compared to the first quarter of 2013. The improvement in rooms revenues reflects a 6.2% increase in RevPAR at our comparable hotels, which is discussed in more detail below, as well as RevPAR improvements from recently renovated properties that are not considered comparable. The increase in rooms revenues was offset partially by a net decrease of $5 million due to the results of our Recent Acquisitions and Dispositions.

Food and beverage. Food and beverage (“F&B”) revenues increased $36 million, or 9.8%, to $405 million compared to the first quarter of 2013. For our comparable hotels, F&B revenues increased 9.4% for the quarter, driven by increased volume at our New York market properties related to the Super Bowl. Additionally, the Sheraton New York Times Square Hotel and Newark Liberty International Airport Marriott benefited from substantial renovations, which were completed in 2013. In addition, several properties had double-digit F&B revenue increases, including San Diego Marriott Marquis & Marina, Sheraton San Diego Hotel & Marina, JW Marriott Desert Springs Resort & Spa, and San Francisco Marriott Marquis. The increase in F&B revenues was offset partially by a net decrease of $5 million as a result of our Recent Acquisitions and Dispositions.

Other revenues . Other revenues increased $3 million, or 3.2%, to $96 million for the first quarter of 2014, compared to the first quarter of 2013 due to increased (i) golf revenues, (ii) attrition and cancellation fees and (iii) rental income and commissions. The increase in other revenues from owned hotels was offset partially by a net decrease of $1 million due to the results of our Recent Acquisitions and Dispositions.

Comparable Portfolio Operating Results. We discuss operating results for our hotels on a comparable basis. Comparable hotels are those properties that we have consolidated for the entirety of the reporting periods being compared. Comparable hotels do not include the results of properties acquired or sold, or that incurred significant property damage or business interruption or have undergone large scale capital projects during these periods. As of March 31, 2014, 109 of our 114 owned hotels have been classified as comparable hotels. See “Comparable Hotel Operating Statistics” for a complete description of our comparable hotels. We also discuss our comparable operating results by property type (i.e. urban, suburban, resort or airport), geographic market and mix of business (i.e. transient, group or contract).

Comparable Hotel Sales by Geographic Market

The following table sets forth performance information for our comparable hotels by geographic market as of March 31, 2014 and 2013, respectively:

Comparable Hotels by Market in Constant US$

	As of March 31, 2014		Quarter ended March 31, 2014			Quarter ended March 31, 2013			
Market	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentage	RevPAR	Average Room Rate	Average Occupancy Percentage	RevPAR	Percent Change in RevPAR
Boston	5	3,432	$172.94	60.9%	$105.36	$163.11	66.4%	$108.30	(2.7)%
New York	9	7,224	246.13	77.6	190.89	232.73	78.7	183.14	4.2
Philadelphia	2	776	192.34	78.6	151.17	198.64	63.0	125.20	20.7
Washington, D.C.	12	6,016	205.70	69.6	143.14	210.95	68.0	143.40	(0.2)
Atlanta	6	2,280	171.62	74.8	128.36	162.00	72.2	116.95	9.8
Florida	7	3,230	245.25	85.8	210.43	239.05	84.2	201.27	4.6
Chicago	7	2,857	142.64	59.6	85.01	148.46	58.9	87.47	(2.8)
Denver	3	1,363	145.62	62.0	90.33	136.61	55.4	75.72	19.3

Houston	4	1,706	191.53	79.9	152.98	175.59	82.3	144.53	5.8
Phoenix	4	1,522	245.17	82.6	202.58	235.30	79.1	186.12	8.8
Seattle	3	1,774	163.37	72.1	117.75	150.31	66.1	99.38	18.5
San Francisco	5	3,701	214.98	77.6	166.78	185.71	71.7	133.15	25.3
Los Angeles	8	3,228	171.01	81.2	138.80	159.34			