

HOST HOTELS & RESORTS, INC.

Form 10-Q

November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

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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	No
Host Hotels & Resorts, L.P.	Yes	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	No
Host Hotels & Resorts, L.P.	Yes	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	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)	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
Host Hotels & Resorts, L.P.	Yes	No

As of October 31, 2016 there were 739,865,175 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, 2015 under the heading “Explanatory Note.”

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

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2016 and December 31, 2015

(in millions, except share and per share amounts)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Property and equipment, net	\$ 10,379	\$ 10,583
Assets held for sale	5	55
Due from managers	106	56
Advances to and investments in affiliates	307	324
Furniture, fixtures and equipment replacement fund	182	141
Other	221	261
Restricted cash	2	15
Cash and cash equivalents	340	221
Total assets	\$ 11,542	\$ 11,656
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes	\$ 2,379	\$ 2,376
Credit facility, including term loans of \$997 million and \$996 million, respectively	1,306	1,291
Mortgage debt	67	200
Total debt	3,752	3,867
Accounts payable and accrued expenses	242	243
Other	280	299
Total liabilities	4,274	4,409
Non-controlling interests - Host Hotels & Resorts, L.P.	138	143
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized, 738.1 million shares and 750.3 million shares issued and outstanding, respectively	7	8
Additional paid-in capital	8,111	8,302
Accumulated other comprehensive loss	(79)	(107)
Deficit	(948)	(1,139)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,091	7,064
Non-controlling interests—other consolidated partnerships	39	40

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Total equity	7,130	7,104
Total liabilities, non-controlling interests and equity	\$ 11,542	\$ 11,656

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	September 30,		September 30,	
	2016	2015	2016	2015
REVENUES				
Rooms	\$879	\$870	\$2,655	\$2,625
Food and beverage	336	337	1,183	1,160
Other	80	76	255	239
Total revenues	1,295	1,283	4,093	4,024
EXPENSES				
Rooms	225	228	674	681
Food and beverage	257	258	830	830
Other departmental and support expenses	321	322	981	973
Management fees	54	51	177	171
Other property-level expenses	96	97	289	289
Depreciation and amortization	182	177	541	528
Corporate and other expenses	28	21	82	68
Gain on insurance and business interruption settlements	(12)	(4)	(15)	(4)
Total operating costs and expenses	1,151	1,150	3,559	3,536
OPERATING PROFIT	144	133	534	488
Interest income	—	—	2	2
Interest expense	(38)	(46)	(116)	(167)
Gain on sale of assets	14	5	245	62
Gain (loss) on foreign currency transactions and derivatives	(1)	(1)	1	(3)
Equity in earnings of affiliates	8	5	19	31
INCOME BEFORE INCOME TAXES	127	96	685	413
Provision for income taxes	(19)	(9)	(42)	(13)
NET INCOME	108	87	643	400
Less: Net income attributable to non-controlling interests	(1)	(2)	(7)	(5)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$107	\$85	\$636	\$395
Basic earnings per common share	\$.14	\$.11	\$.85	\$.53
Diluted earnings per common share	\$.14	\$.11	\$.85	\$.53

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30, 2016	2015	September 30, 2016	2015
NET INCOME	\$108	\$87	\$643	\$400
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income				
(loss) of unconsolidated affiliates	(1)	(27)	13	(71)
Change in fair value of derivative instruments	—	(8)	(2)	7
Amounts reclassified from other comprehensive income (loss)	(7)	—	17	(5)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(8)	(35)	28	(69)
COMPREHENSIVE INCOME	100	52	671	331
Less: Comprehensive income attributable to non-controlling				
interests	(1)	(2)	(7)	(5)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST				
HOTELS & RESORTS, INC.	\$99	\$50	\$664	\$326

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions)

	Year-to-date ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$643	\$400
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	541	528
Amortization of finance costs, discounts and premiums, net	4	19
Non-cash loss on extinguishment of debt	—	6
Stock compensation expense	8	9
Deferred income taxes	29	4
Gain on sale of assets	(245)	(62)
(Gain) loss on foreign currency transactions and derivatives	(1)	3
Gain on property insurance settlement	(1)	(4)
Equity in earnings of affiliates	(19)	(31)
Change in due from managers	(63)	(57)
Distributions from equity investments	20	14
Changes in other assets	1	22
Changes in other liabilities	—	(49)
Cash provided by operating activities	917	802
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	467	183
Return of investment	23	21
Advances to and investments in affiliates	(4)	(4)
Acquisitions	(54)	(402)
Capital expenditures:		
Renewals and replacements	(218)	(293)
Redevelopment and acquisition-related investments	(187)	(175)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(53)	(23)
Change in restricted cash for investing activities	13	(15)
Property insurance proceeds	—	11
Cash used in investing activities	(13)	(697)
FINANCING ACTIVITIES		
Financing costs	—	(7)
Issuances of debt	—	499
Draws on credit facility	598	485

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Term loan issuance	—	300
Repayment of credit facility	(590)	(460)
Repurchase/redemption of senior notes	—	(500)
Mortgage debt and other prepayments and scheduled maturities	(137)	—
Common stock repurchase	(206)	(330)
Dividends on common stock	(448)	(498)
Other financing activities	(6)	(6)
Cash used in financing activities	(789)	(517)
Effects of exchange rate changes on cash held	4	(14)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119	(426)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	221	666
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 340	\$ 240

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2016 and 2015

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended September 30, 2016 2015	
Interest paid - periodic interest expense	\$ 105	\$ 128
Interest paid - debt extinguishments	—	15
Total interest paid	\$ 105	\$ 143
Income taxes paid	\$ 14	\$ 6

Supplemental disclosure of noncash financing activities:

During the third quarter in 2015, holders of \$8.7 million of our 2.5% Exchangeable Senior Debentures due 2029 elected to exchange their debentures into 0.7 million shares of Host Inc. common stock.

Additionally, \$22 million of the shares repurchased during the third quarter in 2015 were not settled until subsequent to September 30, 2015. Therefore, the corresponding cash payment did not occur until the fourth quarter.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2016 and December 31, 2015

(in millions)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Property and equipment, net	\$ 10,379	\$ 10,583
Assets held for sale	5	55
Due from managers	106	56
Advances to and investments in affiliates	307	324
Furniture, fixtures and equipment replacement fund	182	141
Other	221	261
Restricted cash	2	15
Cash and cash equivalents	340	221
Total assets	\$ 11,542	\$ 11,656
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes	\$ 2,379	\$ 2,376
Credit facility, including term loans of \$997 million and \$996 million, respectively	1,306	1,291
Mortgage debt	67	200
Total debt	3,752	3,867
Accounts payable and accrued expenses	242	243
Other	280	299
Total liabilities	4,274	4,409
Limited partnership interests of third parties	138	143
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,169	7,170
Accumulated other comprehensive loss	(79)	(107)
Total Host Hotels & Resorts, L.P. capital	7,091	7,064
Non-controlling interests—consolidated partnerships	39	40
Total capital	7,130	7,104
Total liabilities, limited partnership interest of third parties and capital	\$ 11,542	\$ 11,656

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
REVENUES				
Rooms	\$879	\$870	\$2,655	\$2,625
Food and beverage	336	337	1,183	1,160
Other	80	76	255	239
Total revenues	1,295	1,283	4,093	4,024
EXPENSES				
Rooms	225	228	674	681
Food and beverage	257	258	830	830
Other departmental and support expenses	321	322	981	973
Management fees	54	51	177	171
Other property-level expenses	96	97	289	289
Depreciation and amortization	182	177	541	528
Corporate and other expenses	28	21	82	68
Gain on insurance and business interruption settlements	(12)	(4)	(15)	(4)
Total operating costs and expenses	1,151	1,150	3,559	3,536
OPERATING PROFIT	144	133	534	488
Interest income	—	—	2	2
Interest expense	(38)	(46)	(116)	(167)
Gain on sale of assets	14	5	245	62
Gain (loss) on foreign currency transactions and derivatives	(1)	(1)	1	(3)
Equity in earnings of affiliates	8	5	19	31
INCOME BEFORE INCOME TAXES	127	96	685	413
Provision for income taxes	(19)	(9)	(42)	(13)
NET INCOME	108	87	643	400
Less: Net (income) loss attributable to non-controlling interests	—	(1)	1	—
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$108	\$86	\$644	\$400
Basic earnings per common unit	\$.15	\$.12	\$.87	\$.54
Diluted earnings per common unit	\$.15	\$.12	\$.87	\$.54

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30, 2016	2015	September 30, 2016	2015
NET INCOME	\$108	\$87	\$643	\$400
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income				
(loss) of unconsolidated affiliates	(1)	(27)	13	(71)
Change in fair value of derivative instruments	—	(8)	(2)	7
Amounts reclassified from other comprehensive income (loss)	(7)	—	17	(5)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(8)	(35)	28	(69)
COMPREHENSIVE INCOME	100	52	671	331
Less: Comprehensive (income) loss attributable to non-				
controlling interests	—	(1)	1	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST				
HOTELS & RESORTS, L.P.	\$100	\$51	\$672	\$331

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2016 and 2015

(unaudited, in millions)

	Year-to-date ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$643	\$400
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	541	528
Amortization of finance costs, discounts and premiums, net	4	19
Non-cash loss on extinguishment of debt	—	6
Stock compensation expense	8	9
Deferred income taxes	29	4
Gain on sale of assets	(245)	(62)
(Gain) loss on foreign currency transactions and derivatives	(1)	3
Gain on property insurance settlement	(1)	(4)
Equity in earnings of affiliates	(19)	(31)
Change in due from managers	(63)	(57)
Distributions from equity investments	20	14
Changes in other assets	1	22
Changes in other liabilities	—	(49)
Cash provided by operating activities	917	802
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	467	183
Return of investment	23	21
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Acquisitions	(54)	(402)
Capital expenditures:		
Renewals and replacements	(218)	(293)
Redevelopment and acquisition-related investments	(187)	(175)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(53)	(23)
Change in restricted cash for investing activities	13	(15)
Property insurance proceeds	—	11
Cash used in investing activities	(13)	(697)
FINANCING ACTIVITIES		
Financing costs	—	(7)
Issuances of debt	—	499
Draws on credit facility	598	485

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Term loan issuance	—	300
Repayment of credit facility	(590)	(460)
Repurchase/redemption of senior notes	—	(500)
Mortgage debt and other prepayments and scheduled maturities	(137)	—
Repurchase of common OP units	(206)	(330)
Distributions on common OP units	(453)	(505)
Other financing activities	(1)	1
Cash used in financing activities	(789)	(517)
Effects of exchange rate changes on cash held	4	(14)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119	(426)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	221	666
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 340	\$ 240

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2016 and 2015

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended September 30, 2016 2015	
Interest paid - periodic interest expense	\$ 105	\$ 128
Interest paid - debt extinguishments	—	15
Total interest paid	\$ 105	\$ 143
Income taxes paid	\$ 14	\$ 6

Supplemental disclosure of noncash financing activities:

During the third quarter in 2015, holders of \$8.7 million of our 2.5% Exchangeable Senior Debentures due 2029 elected to exchange their debentures into 0.7 million shares of Host Inc. common stock.

Additionally, \$22 million of the shares repurchased during the third quarter in 2015 were not settled until subsequent to September 30, 2015. Therefore, the corresponding cash payment did not occur until the fourth quarter.

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 these unaudited 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 September 30, 2016, Host Inc. holds approximately 99% of Host L.P.’s OP units.

Consolidated Portfolio

As of September 30, 2016, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

	Hotels
United States	89
Australia	1
Brazil	3
Canada	2
Mexico	1
Total	96

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”) (3 hotels) and a 33.4% interest in the second fund (“Euro JV Fund II”) (7 hotels).

As of September 30, 2016, the Euro JV owned hotels located in the following countries:

	Hotels
Belgium	1
France	3
Germany	1
Spain	2
Sweden	1
The Netherlands	1
United Kingdom	1
Total	10

We also own non-controlling interests in an additional five joint ventures that own eight hotels totaling approximately 3,400 rooms.

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

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

statements. We believe the disclosures made herein are adequate to prevent the information presented from being misleading. However, the 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, 2015.

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 September 30, 2016, and the results of our operations for the quarter and year-to-date periods ended September 30, 2016 and 2015, respectively, and cash flows for the year-to-date periods ended September 30, 2016 and 2015, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal variations.

New Accounting Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses classification issues related to the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify accounting for share-based payment transactions and will affect the classification of certain share-based awards and related tax withholdings. The standard is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We do not anticipate implementation will have a material effect on our financial statements or on the stock compensation plans currently outstanding; however, its effect on future stock compensation plans will be dependent upon the design of those plans.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which affects aspects of accounting for lease agreements. Under the new standard, all leases, including those that previously were accounted for as operating leases, will require recognition of the lease assets and lease liabilities by lessees on the balance sheet. However, the effect on the statement of operations and the statement of cash flows largely is unchanged. The standard is effective for fiscal years beginning after December 15, 2018, with early application permitted. The primary impact of the new standard will be to the treatment of our 26 ground leases, which represent 85% of all of our operating lease payments. While we have not completed our analysis, we believe that the application of this standard will result in the recording of a right of use asset and the related lease liability of between \$400 million and \$500 million, although changes in discount rates, ground lease terms or other variables may have a significant effect on this calculation. As noted above, we expect the adoption of this standard to have minimal impact on our income statement.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. The ASU amends the consolidation guidance for variable interest entities (VIEs) and general partners' investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The ASU is effective for interim and annual reporting periods beginning after December 15, 2015. Specifically, as a result of the elimination of the presumption that a general partner should consolidate a limited partnership, and that these partnerships should be evaluated under the VIE or Voting Interest model, we re-evaluated

the VIE determination of our non-wholly-owned partnerships. We adopted this standard on January 1, 2016, and applied the changes retrospectively. As a result, we no longer consolidate the partnership that owns the Fort Lauderdale Marriott Harbor Beach Resort & Spa, of which we are the managing partner and hold 49.9% of the partnership interests, due to the voting rights of the third-party owner. Accordingly, the operations, assets and liabilities of the hotel no longer are included in our consolidated financial statements. Instead, we have included our interest in the hotel based on the carrying amount on January 1, 2015 in advances to and investments in affiliates and our portion of the hotel's earnings are recorded to equity in earnings of affiliates, with no cumulative-effect adjustment. As a result of the adoption of this ASU, total assets and total liabilities at December 31, 2015 were reduced by \$128 million and \$150 million, respectively. In addition, total revenues for the quarter and year-to-date ended September 30, 2015 were reduced by \$4 million and \$29 million, respectively, while net income for the quarter and year-to-date ended September 30, 2015 were increased by \$2 million and reduced by \$5 million, respectively. The deconsolidation of this entity had no effect on the total equity of Host Inc. stockholders, total Host L.P capital or net income attributable to Host Inc. or Host L.P.

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Additionally, three partnerships now are considered VIE's, as the general partner maintains control over the decisions that most significantly impact the partnerships; however, this consideration did not change the consolidation determination. This conclusion includes the operating partnership, Host L.P., which is consolidated by Host Inc., of which Host Inc. is the general partner and holds 99% of the limited partner interests. Host Inc.'s sole significant asset is its investment in Host L.P. and, consequently, substantially all of Host Inc.'s assets and liabilities represent assets and liabilities of Host L.P. All of Host Inc.'s debt is an obligation of Host L.P. and may be settled only with assets of Host L.P. We also determined that our consolidated partnership that owns the Houston Airport Marriott at George Bush Intercontinental, of which we are the general partner and hold 85% of the partnership interests, is a VIE. The total assets of this VIE at September 30, 2016 are \$61 million and consist of cash and property and equipment. Liabilities for the VIE total \$3 million and consist of accounts payable and deferred revenue. The unconsolidated partnership that owns the Philadelphia Marriott Downtown, of which we hold 11% of the limited partner interests, also is a VIE. The carrying amount of this investment at September 30, 2016 is \$(7) million and is included in advances to and investments in affiliates. The mortgage debt held by this VIE is non-recourse to us.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard sets forth steps to determine the timing and amount of revenue to be recognized to depict the transfer of goods or services in an amount that reflects the consideration that the entity expects in exchange. In March, April and May 2016, the FASB issued ASUs No. 2016-08, 2016-10 and 2016-12, respectively, all related to Revenue from Contracts with Customers (Topic 606), which further clarify the application of the standard. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effectiveness of ASU No. 2014-09 to reporting periods beginning after December 15, 2017 and permitted early application for annual reporting periods beginning after December 15, 2016. Based on our assessment of this standard, it will not materially affect the amount or timing of revenue recognition for revenues from room, food and beverage, and other hotel level sales.

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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. We have 8.7 million OP units which are convertible into 8.9 million common shares which are not included in Host Inc.'s calculation of earnings per share as their effect is not dilutive. The calculation of basic and diluted earnings per common share is shown below (in millions, except per share amounts):

	Quarter ended		Year-to-date ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$108	\$87	\$643	\$400
Less: Net income attributable to non-controlling interests	(1)	(2)	(7)	(5)
Net income attributable to Host Inc.	\$107	\$85	\$636	\$395
Basic weighted average shares outstanding	740.6	746.4	744.8	752.1
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.5	0.4	0.4	0.4
Diluted weighted average shares outstanding ⁽¹⁾	741.1	746.8	745.2	752.5
Basic earnings per common share	\$.14	\$.11	\$.85	\$.53
Diluted earnings per common share	\$.14	\$.11	\$.85	\$.53

(1)There were approximately 31 million potentially dilutive shares for both the

quarter and
year-to-date
ended
September 30,
2015 related to
our
exchangeable
senior
debentures,
which were
anti-dilutive
for the period.
The
exchangeable
senior
debentures
were redeemed
in 2015 in
exchange for
32 million
shares.

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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 distributed 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		Year-to-date ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$108	\$87	\$643	\$400
Less: Net (income) loss attributable to non-controlling interests	—	(1)	1	—
Net income attributable to Host L.P.	\$108	\$86	\$644	\$400
Basic weighted average units outstanding	733.8	739.9	738.1	745.5
Assuming distribution of common units granted				
under the comprehensive stock plans, less				
units assumed purchased at market	0.5	0.4	0.4	0.4
Diluted weighted average units outstanding ⁽¹⁾	734.3	740.3	738.5	745.9
Basic earnings per common unit	\$.15	\$.12	\$.87	\$.54
Diluted earnings per common unit	\$.15	\$.12	\$.87	\$.54

(1) There were approximately 31 million potentially dilutive units for both the quarter and year-to-date ended September 30, 2015 related to our exchangeable senior debentures, which were anti-dilutive for the period. The exchangeable senior debentures were redeemed in 2015 and Host L.P. issued 31.3 million units.

4. Property and Equipment

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

	September 30, 2016	December 31, 2015
Land and land improvements	\$ 2,059	\$ 2,044
Buildings and leasehold improvements	13,696	13,472
Furniture and equipment	2,388	2,283
Construction in progress	109	289
	18,252	18,088
Less accumulated depreciation and amortization	(7,873)	(7,505)
	\$ 10,379	\$ 10,583

5. Debt

Credit facility. During the quarter, we had net draws under the revolver portion of our credit facility of \$50 million. As of September 30, 2016, we had \$688 million of available capacity under the credit facility.

Subsequent to quarter end, we made additional net draws of \$60 million on the revolver portion of our credit facility.

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Mortgage Debt. During the quarter we amended the agreement for the mortgage loan secured by the Hilton Melbourne South Wharf, which extended the maturity of the loan to November 2017 and lowered the effective interest rate by 65 basis points.

In connection with the sale of the ibis Christchurch and Novotel Christchurch Cathedral Square, we repaid the NZ\$23 million (\$17 million) mortgage debt secured by the properties.

6. Investments in Affiliates

In August 2016, the joint venture that owns the Hyatt Place Nashville Downtown refinanced its \$31 million construction loan with a new \$60 million mortgage loan due August 2019 with two 12-month extension options. The loan bears interest at 1-month USD LIBOR plus 300 basis points, or 3.5% at September 30, 2016. Upon repayment of the construction loan, the partners were released of their guarantee on such loan. The joint venture also made a distribution to its partners, of which we received \$16 million.

7. 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, 2015	\$7,064	\$ 40	\$7,104	\$ 143
Net income (loss)	636	(1)	635	8
Issuance of common stock	7	—	7	—
Repurchase of common stock	(206)	—	(206)	—
Dividends declared on common stock	(445)	—	(445)	—
Distributions to non-controlling interests	—	—	—	(6)
Other changes in ownership	7	—	7	(7)
Other comprehensive income	28	—	28	—

Balance, September 30, 2016	\$7,091	\$	39	\$7,130	\$	138
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Capital of Host L.P.

As of September 30, 2016, 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.

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

	Capital of Host L.P.	Non-controlling interests	Total Capital	Limited Partnership Interest of Third Parties
Balance, December 31, 2015	\$7,064	\$ 40	\$ 7,104	\$ 143
Net income (loss)	636	(1)	635	8
Issuance of common OP units	7	—	7	—
Repurchase of common OP units	(206)	—	(206)	—
Distributions declared on common OP units	(445)	—	(445)	(6)
Other changes in ownership	7	—	7	(7)
Other comprehensive income	28	—	28	—
Balance, September 30, 2016	\$7,091	\$ 39	\$ 7,130	\$ 138

For Host Inc. and Host L.P., during the third quarter of 2016, we reclassified a net gain of \$7 million that had been recognized previously in foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates in other comprehensive income related to the sale of two properties in New Zealand. This net gain is included in gain on sale of assets on our consolidated statement of operations.

Dividends/Distributions

On September 15, 2016, Host Inc.'s Board of Directors declared a regular quarterly cash dividend of \$0.20 per share on its common stock. The dividend was paid on October 17, 2016 to stockholders of record as of September 30, 2016. Accordingly, Host L.P. made a distribution of \$0.2042988 per unit on its common OP units based on the current conversion ratio.

Share Repurchase

In October 2015, Host Inc.'s Board of Directors authorized a second program to repurchase up to \$500 million of Host Inc. common stock. During the third quarter, we repurchased 2.8 million shares at an average price of \$16.04 for a total purchase price of \$44 million. Year-to-date September 30, 2016, we repurchased 13.1 million shares at an average price of \$15.79 for a total purchase price of approximately \$206 million. As of September 30, 2016, we have \$117 million of repurchase capacity remaining under the program. The common stock may be purchased in the open market or through private transactions, including principal transactions with various financial institutions, like accelerated share repurchases, forwards, options and similar transactions, from time to time, dependent upon market conditions. The plan does not obligate us to repurchase any specific number or any specific dollar amount of shares and may be suspended at any time at our discretion. The shares repurchased constitute authorized but unissued shares.

8. Dispositions

During the third quarter, we sold the ibis Christchurch and Novotel Christchurch Cathedral Square in New Zealand for NZ\$43 million (\$31 million).

The following table provides summary results of operations for the ten hotels sold in 2016 and eight hotels sold in 2015, which are included in continuing operations (in millions):

	Quarter ended		Year-to-date ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues	\$3	\$ 46	\$58	\$176
Income before taxes and gain on disposal	1	12	10	23
Gain on disposals	12	5	242	61

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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 at September 30, 2016 and December 31, 2015, respectively (in millions):

	Fair Value at Measurement Date Using			
	Balance at September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Foreign currency forward sale contracts ⁽¹⁾	\$7	\$ —	\$ 7	\$ —
Liabilities				
Foreign currency forward sale contracts ⁽¹⁾	(1)	—	(1)	—

	Fair Value at Measurement Date Using			
	Balance at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Foreign currency forward sale contracts ⁽¹⁾	\$17	\$ —	\$ 17	\$ —
Liabilities				
Interest rate swap derivatives ⁽¹⁾	(1)	—	(1)	—

(1) These derivative contracts have been designated as hedging instruments.

Derivatives and Hedging

Interest rate swap derivatives designated as cash flow hedges. We have designated our floating-to-fixed interest rate swap derivative as a cash flow hedge. The purpose of the interest rate swap is to hedge against changes in cash flows (interest payments) attributable to fluctuations in variable rate debt. The derivative is 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 swap. Changes in the fair value of the derivative are recorded to other comprehensive income (loss) on

the accompanying balance sheets. The hedge was fully effective as of September 30, 2016.

For the third quarter and year-to-date 2016, we recorded a gain of \$1 million on our interest rate swap derivative designated as a cash flow hedge. The following table summarizes our outstanding contract (in millions):

Transaction Date	Total Notional Amount	Maturity Date	Swapped Index	All-in- Rate
November 2011 ⁽¹⁾	A\$ 62	November 2016	Reuters BBSY	6.7 %

(1) The swap was entered into in connection with the A\$86 million (\$66 million) mortgage loan on the Hilton Melbourne South Wharf.

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 other comprehensive income (loss) within the equity portion of our balance sheet. The foreign currency 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.

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

Currently Outstanding	Total		Forward Purchase	Change in Fair Value - All Contracts			
	Transaction	Total		Gain (Loss)		Gain (Loss)	
Transaction Date	Foreign	Amount	Date Range	Quarter ended		Year-to-date ended	
Range	Currency	in Dollars		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
May 2014-January 2016	€ 100	\$ 118	May 2017-January 2018	\$ (1)	\$ —	\$ (2)	\$ 10
November 2014	C\$ 25	\$ 22	November 2016	\$ —	\$ 2	\$ (1)	\$ 3

In addition to the foreign currency 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 of the designated credit facility draws are recorded to other comprehensive income (loss).

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	Balance	Gain (Loss)		Gain (Loss)	
	Outstanding	Outstanding	Quarter ended	Year-to-date ended	Year-to-date ended	Year-to-date ended
	US\$	Foreign Currency	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Canadian dollars ⁽¹⁾	\$ 35	C\$ 46	\$ —	\$ 3	\$ (2)	\$ 4
Euros	\$ 87	€ 77	\$ (1)	\$ —	\$ (3)	\$ 7
Australian dollars	\$ 38	A\$ 50	\$ (1)	\$ —	\$ —	\$ —

(1) We have drawn an additional \$46 million on the credit facility in Canadian dollars, which draw 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. The fair values of secured debt and our credit facility are determined based on the expected future

payments discounted at risk-adjusted rates. Senior notes 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.

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

	September 30, 2016 Carrying		December 31, 2015 Carrying	
	Amount	Fair Value	Amount	Fair Value
Financial liabilities				
Senior notes (Level 1)	\$2,379	\$ 2,594	\$2,376	\$ 2,452
Credit facility (Level 2)	1,306	1,312	1,291	1,298
Mortgage debt and other, excluding capital leases				
(Level 2)	66	66	199	199

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 during the third quarters of 2016 and 2015 consisted of hotels in six countries. During the third quarter, we sold our two remaining properties in New Zealand. There were no intersegment sales during the periods presented.

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

	Revenues		Revenues		Property and	
	Quarter ended		Year-to-date		Equipment, net	
	September 30,	September 30,	September 30,	September 30,	September	December 31,
	2016	2015	2016	2015	30,	2015
					2016	2015
United States	\$1,247	\$1,230	\$3,959	\$3,857	\$10,140	\$ 10,294
Australia	8	8	24	25	88	88
Brazil	15	7	29	22	63	53
Canada	16	15	40	44	73	66
Chile	—	5	9	18	—	44
Mexico	6	7	21	21	15	18
New Zealand	3	11	11	37	—	20
Total	\$1,295	\$1,283	\$4,093	\$4,024	\$10,379	\$ 10,583

11. Non-controlling Interests

Other Consolidated Partnerships. We consolidate four 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 balance sheets and totaled \$39 million and \$40 million as of September 30, 2016 and December 31, 2015, respectively. One of the partnerships has a finite life that terminates in 2095, and the associated non-controlling interests are redeemable at our option at the end of, but not prior to, the finite life.

Net income attributable to non-controlling interests of consolidated partnerships is included in our determination of net income. Net income (loss) attributable to non-controlling interests of third parties was immaterial and \$1 million for the quarters ended September 30, 2016 and 2015 and \$(1) million and immaterial for the year-to-date periods ended September 30, 2016 and 2015.

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 sheets 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:

	September 30, 2016	December 31, 2015
OP units outstanding (millions)	8.7	9.1
Market price per Host Inc. common share	\$15.57	\$ 15.34
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	\$138	\$ 143
Historical cost (millions)	86	90
Book value (millions) ⁽¹⁾	138	143

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

Net income 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 the non-controlling interests of Host L.P. was \$1 million and

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\$1 million for the quarters ended September 30, 2016 and 2015, respectively, and \$8 million and \$5 million, for the year-to-date periods ended September 30, 2016 and 2015, 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.

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 \$5 million as of September 30, 2016 for liabilities related to legal proceedings and estimate that, in the aggregate, our losses related to these proceedings will not exceed \$10 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.

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 the duration and strength of U.S. economic growth, global economic prospects and the value of the U.S. dollar, and (ii) other factors such as natural disasters, weather, pandemics, 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;
- the impact of geopolitical developments outside the U.S., such as the pace of the economic recovery in Europe, the effects of the United Kingdom's referendum to withdraw from the European Union, the slowing of growth in markets such as China and Brazil, or unrest in the Middle East, all of which could affect the relative volatility of global credit markets generally, global travel and lodging demand, including with respect to our foreign hotel properties;
- 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;
- operating risks associated with the hotel business, including the effect of increasing labor costs or changes in workplace rules that affect labor costs;
- 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 amount 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, including temporary closures, 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;
- risks associated with a single manager, Marriott International, managing a significant portion of our properties;

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 effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks;

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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;

the ability of Host Inc. and each of the REITs 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; and

risks associated with our ability to execute our dividend policy, including factors such as investment activity, operating results and the economic outlook, any or all of which may influence the decision of our board of directors as to whether to pay future dividends at levels previously disclosed or to use available cash to pay special dividends.

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, 2015 and in other filings with the Securities and Exchange Commission ("SEC"). Although we believe that 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			Year-to-date		
	September 30,		Change	ended September 30,		Change
	2016	2015		2016	2015	
Total revenues	\$1,295	\$1,283	0.9 %	\$4,093	\$4,024	1.7 %
Net income	108	87	24.1 %	643	400	60.8 %
Operating profit	144	133	8.3 %	534	488	9.4 %
Operating profit margin under GAAP	11.1 %	10.4 %	70 bps	13.0 %	12.1 %	90 bps
Adjusted EBITDA ⁽¹⁾	\$342	\$323	5.9 %	\$1,123	\$1,066	5.3 %
Diluted earnings per share	0.14	0.11	27.3 %	0.85	0.53	60.4 %
NAREIT FFO per diluted share ⁽¹⁾						