HOST HOTELS & RESORTS, INC.
Form 10-Q
May 01, 2015

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, 2015

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 April 29, 2015 there were 757,674,729 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, 2014 under the heading "Explanatory Note."

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

INDEX

PART I. FINANCIAL INFORMATION

		Page No.
Item 1.	Financial Statements for Host Hotels & Resorts, Inc.:	
	Condensed Consolidated Balance Sheets - March 31, 2015 (unaudited) and December 31, 2014	1
	Condensed Consolidated Statements of Operations (unaudited) - Quarter ended March 31, 2015 and 2014	2
	Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) - Quarter ended March 31, 2015 and 2014	3
	Condensed Consolidated Statements of Cash Flows (unaudited) - Quarter ended March 31, 2015 and 2014	4
	Financial Statements for Host Hotels & Resorts, L.P.:	
	Condensed Consolidated Balance Sheets - March 31, 2015 (unaudited) and December 31, 2014	6
	Condensed Consolidated Statements of Operations (unaudited) - Quarter ended March 31, 2015 and 2014	7
	Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) - Quarter ended March 31, 2015 and 2014	8
	Condensed Consolidated Statements of Cash Flows (unaudited) - Quarter ended March 31, 2015 and 2014	9
	Notes to Condensed Consolidated Financial Statements (unaudited)	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	42
Item 4.	Controls and Procedures	43
	PART II. OTHER INFORMATION	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44

Item 6. Exhibits 45

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2015 and December 31, 2014

(in millions, except share and per share amounts)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Property and equipment, net	$ 10,495	$ 10,575
Due from managers	149	70
Advances to and investments in affiliates	387	433
Deferred financing costs, net	33	35
Furniture, fixtures and equipment replacement fund	169	129
Other	292	281
Cash and cash equivalents	485	684
Total assets	$ 12,010	$ 12,207
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes, including $390 million and $386 million, respectively, net of discount, of Exchangeable Senior Debentures	$ 2,888	$ 2,884
Credit facility, including the $500 million term loan	685	704
Mortgage debt	395	404
Total debt	3,968	3,992
Accounts payable and accrued expenses	224	298
Other	304	324
Total liabilities	4,496	4,614
Non-controlling interests - Host Hotels & Resorts, L.P.	191	225
Host Hotels & Resorts, Inc. stockholders’ equity:		
Common stock, par value $.01, 1,050 million shares authorized, 756.3 million shares and 755.8 million shares issued and outstanding, respectively	8	8
Additional paid-in capital	8,519	8,476
Accumulated other comprehensive loss	(87)	(50)
Deficit	(1,151)	(1,098)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,289	7,336

Non-controlling interests—other consolidated partnerships	34	32
Total equity	7,323	7,368
Total liabilities, non-controlling interests and equity	$ 12,010	$ 12,207

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter ended March 31, 2015 and 2014

(unaudited, in millions, except per share amounts)

	Quarter ended March 31, 2015	2014
REVENUES		
Rooms	$ 818	$ 808
Food and beverage	403	405
Other	96	96
Total revenues	1,317	1,309
EXPENSES		
Rooms	220	226
Food and beverage	283	284
Other departmental and support expenses	321	315
Management fees	52	50
Other property-level expenses	98	97
Depreciation and amortization	175	172
Corporate and other expenses	24	34
Gain on insurance settlements	—	(3)
Total operating costs and expenses	1,173	1,175
OPERATING PROFIT	144	134
Interest income	1	1
Interest expense	(51)	(58)
Gain on sale of assets	4	112
Loss on foreign currency transactions and derivatives	(1)	—
Equity in losses of affiliates	(2)	(8)
INCOME BEFORE INCOME TAXES	95	181
Benefit for income taxes	9	4
NET INCOME	104	185
Less: Net income attributable to non-controlling interests	(6)	(6)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	$ 98	$ 179
Basic earnings per common share	$ .13	$ .24
Diluted earnings per common share	$ .13	$ .24

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter ended March 31, 2015 and 2014

(unaudited, in millions)

	Quarter ended March 31, 2015	2014
NET INCOME	$ 104	$ 185
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	(47)	7
Change in fair value of derivative instruments	15	—
Amounts reclassified from other comprehensive income (loss)	(5)	—
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(37)	7
COMPREHENSIVE INCOME	67	192
Less: Comprehensive income attributable to non-controlling interests	(6)	(6)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	$ 61	$ 186

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2015 and 2014

(unaudited, in millions)

	Quarter ended March 31, 2015	2014
OPERATING ACTIVITIES		
Net income	$104	$185
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	175	172
Amortization of finance costs, discounts and premiums, net	6	6
Non-cash loss on extinguishment of debt	—	1
Stock compensation expense	5	4
Deferred income taxes	(13)	(11)
Gain on sale of assets	(4)	(112)
Loss on foreign currency transactions and derivatives	1	—
Equity in losses of affiliates	2	8
Change in due from managers	(75)	(58)
Distributions from equity investments	4	—
Changes in other assets	13	(6)
Changes in other liabilities	(45)	(18)
Cash provided by operating activities	173	171
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	33	274
Return of investment	—	25
Acquisitions	—	(73)
Advances to and investments in affiliates	—	(14)
Capital expenditures:		
Renewals and replacements	(125)	(76)
Redevelopment and acquisition-related investments	(45)	(14)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(30)	12
Cash provided by (used in) investing activities	(167)	134
FINANCING ACTIVITIES		
Repayment of credit facility	—	(225)
Repurchase/redemption of senior notes	—	(150)
Mortgage debt and other prepayments and scheduled maturities	—	(301)
Issuance of common stock	1	1
Dividends on common stock	(197)	(98)
Distributions to non-controlling interests	(2)	(1)
Change in restricted cash for financing activities	—	(1)

Cash used in financing activities	(198)	(775)
Effects of exchange rate changes on cash held	(7)	1
DECREASE IN CASH AND CASH EQUIVALENTS	(199)	(469)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	684	861
CASH AND CASH EQUIVALENTS, END OF PERIOD	$485	$392

See notes to condensed consolidated statements

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2015 and 2014

(unaudited)

Supplemental disclosure of cash flow information (in millions)

	Quarter ended March 31,	
	2015	2014
Interest paid - periodic interest expense	$ 44	$ 48
Interest paid - debt extinguishments	—	2
Total interest paid	$ 44	$ 50
Income taxes paid	$ 1	$ 8

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2015 and December 31, 2014

(in millions)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Property and equipment, net	$ 10,495	$ 10,575
Due from managers	149	70
Advances to and investments in affiliates	387	433
Deferred financing costs, net	33	35
Furniture, fixtures and equipment replacement fund	169	129
Other	292	281
Cash and cash equivalents	485	684
Total assets	$ 12,010	$ 12,207
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes, including $390 million and $386 million, respectively, net of discount, of Exchangeable Senior Debentures	$ 2,888	$ 2,884
Credit facility, including the $500 million term loan	685	704
Mortgage debt	395	404
Total debt	3,968	3,992
Accounts payable and accrued expenses	224	298
Other	304	324
Total liabilities	4,496	4,614
Limited partnership interests of third parties	191	225
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,375	7,385
Accumulated other comprehensive loss	(87)	(50)
Total Host Hotels & Resorts, L.P. capital	7,289	7,336
Non-controlling interests—consolidated partnerships	34	32
Total capital	7,323	7,368
Total liabilities, limited partnership interest of third parties and capital	$ 12,010	$ 12,207

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter ended March 31, 2015 and 2014

(unaudited, in millions, except per unit amounts)

	Quarter ended March 31,	
	2015	2014
REVENUES		
Rooms	$ 818	$ 808
Food and beverage	403	405
Other	96	96
Total revenues	1,317	1,309
EXPENSES		
Rooms	220	226
Food and beverage	283	284
Other departmental and support expenses	321	315
Management fees	52	50
Other property-level expenses	98	97
Depreciation and amortization	175	172
Corporate and other expenses	24	34
Gain on insurance settlements	—	(3)
Total operating costs and expenses	1,173	1,175
OPERATING PROFIT	144	134
Interest income	1	1
Interest expense	(51)	(58)
Gain on sale of assets	4	112
Loss on foreign currency transactions and derivatives	(1)	—
Equity in losses of affiliates	(2)	(8)
INCOME BEFORE INCOME TAXES	95	181
Benefit for income taxes	9	4
NET INCOME	104	185
Less: Net income attributable to non-controlling interests	(5)	(4)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	$ 99	$ 181
Basic earnings per common unit	$ .13	$ .24
Diluted earnings per common unit	$ .13	$ .24

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter ended March 31, 2015 and 2014

(unaudited, in millions)

	Quarter ended March 31,	
	2015	2014
NET INCOME	$ 104	$ 185
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	(47)	7
Change in fair value of derivative instruments	15	—
Amounts reclassified from other comprehensive income (loss)	(5)	—
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(37)	7
COMPREHENSIVE INCOME	67	192
Less: Comprehensive income attributable to non-controlling interests	(5)	(4)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	$ 62	$ 188

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2015 and 2014

(unaudited, in millions)

	Quarter ended March 31, 2015	Quarter ended March 31, 2014
OPERATING ACTIVITIES		
Net income	$104	$185
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	175	172
Amortization of finance costs, discounts and premiums, net	6	6
Non-cash loss on extinguishment of debt	—	1
Stock compensation expense	5	4
Deferred income taxes	(13)	(11)
Gain on sale of assets	(4)	(112)
Loss on foreign currency transactions and derivatives	1	—
Equity in losses of affiliates	2	8
Change in due from managers	(75)	(58)
Distributions from equity investments	4	—
Changes in other assets	13	(6)
Changes in other liabilities	(45)	(18)
Cash provided by operating activities	173	171
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	33	274
Return of investment	—	25
Acquisitions	—	(73)
Advances to and investments in affiliates	—	(14)
Capital expenditures:		
Renewals and replacements	(125)	(76)
Redevelopment and acquisition-related investments	(45)	(14)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(30)	12
Cash provided by (used in) investing activities	(167)	134
FINANCING ACTIVITIES		
Repayment of credit facility	—	(225)
Repurchase/redemption of senior notes	—	(150)
Mortgage debt and other prepayments and scheduled maturities	—	(301)
Issuance of common OP units	1	1
Distributions on common OP units	(199)	(99)
Change in restricted cash for financing activities	—	(1)
Cash used in financing activities	(198)	(775)

Effects of exchange rate changes on cash held	(7)	1
DECREASE IN CASH AND CASH EQUIVALENTS	(199)	(469)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	684	861
CASH AND CASH EQUIVALENTS, END OF PERIOD	$485	$392

See notes to condensed consolidated statements

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarter ended March 31, 2015 and 2014

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Quarter ended March 31,	
	2015	2014
Interest paid - periodic interest expense	$ 44	$ 48
Interest paid - debt extinguishments	—	2
Total interest paid	$ 44	$ 50
Income taxes paid	$ 1	$ 8

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 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, 2015, Host Inc. holds approximately 99% of Host L.P.'s OP units.

Consolidated Portfolio

As of March 31, 2015, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

	Hotels
United States	97
Australia	1
Brazil	3
Canada	2
Chile	2
Mexico	1
New Zealand	7
Total	113

International 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") (10 hotels) and a 33.4% interest in the second fund ("Euro JV Fund II") (9 hotels).

As of March 31, 2015, the Euro JV owned hotels located in the following countries:

	Hotels

Belgium	3
France	4
Germany	2
Italy	3
Poland	1
Spain	2
Sweden	1
The Netherlands	2
United Kingdom	1
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 that owns three operating hotels and four 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 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, 2014.

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 financial statements reflect all adjustments necessary to present fairly our financial position as of March 31, 2015, and the results of our operations and cash flows for the quarters ended March 31, 2015 and 2014, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal variations.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform with the current year presentation. In particular, gain on sale of assets, which previously was presented net of tax following income from continuing operations on our statement of operations, has been reclassified to be included in income before income taxes following guidance issued by the SEC upon adoption of ASU 2014-08, Reporting for Discontinued Operations.

New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for annual reporting periods beginning after December 15, 2015. Upon adoption of the standard we will reclassify deferred financing costs, net from total assets to be shown net of debt in the liabilities section of our balance sheet. Adoption of this standard will only affect the presentation of our balance sheet.

In February 2015, the FASB issued ASU 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, with early adoption permitted. We are currently evaluating the effect of the ASU on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which affects virtually all aspects of an entity’s revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods beginning after December 15, 2016, however in April 2015, the FASB proposed to defer the effective date to December 15, 2017. We have not yet completed our assessment of the effect of the new standard on our financial statements, including possible transition alternatives.

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. We have 9.2 million OP units which are convertible into 9.4 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 March 31,	
	2015	2014
Net income	$ 104	$ 185
Less: Net income attributable to non-controlling interests	(6)	(6)
Net income attributable to Host Inc.	98	179
Assuming conversion of exchangeable senior debentures	—	7
Diluted income attributable to Host Inc.	$ 98	$ 186
Basic weighted average shares outstanding	756.0	754.9
Assuming weighted average shares for conversion of exchangeable senior debentures	—	29.9
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.3	0.3
Diluted weighted average shares outstanding [(1)]	756.3	785.1
Basic earnings per common share	$ .13	$ .24
Diluted earnings per common share	$ .13	$ .24

———————

(1) There were approximately 31 million potentially dilutive shares for the quarter ended March 31, 2015 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.

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 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 March 31,	
	2015	2014
Net income	$ 104	$ 185
Less: Net income attributable to non-controlling interests	(5)	(4)
Net income attributable to Host L.P.	99	181
Assuming conversion of exchangeable senior debentures	—	7
Diluted income attributable to Host L.P.	$ 99	$ 188
Basic weighted average units outstanding	749.4	748.5
Assuming weighted average units for conversion of exchangeable senior debentures	—	29.3
Assuming distribution of common units granted under the comprehensive stock plans, less units assumed purchased at market	0.3	0.3
Diluted weighted average units outstanding [(1)]	749.7	778.1
Basic earnings per common unit	$ .13	$ .24
Diluted earnings per common unit	$ .13	$ .24

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(1) There were approximately 30 million potentially dilutive units for the quarter ended March 31, 2015 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, 2015	December 31, 2014
Land and land improvements	$ 1,985	$ 1,990

Buildings and leasehold improvements	13,368	13,336
Furniture and equipment	2,263	2,217
Construction in progress	183	209
	17,799	17,752
Less accumulated depreciation and amortization	(7,304)	(7,177)
	$ 10,495	$ 10,575

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

5. 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, 2014	$7,336	$ 32	$7,368	$ 225
Net income	98	5	103	1
Issuance of common stock	10	—	10	—
Dividends declared on common stock	(151)	—	(151)	—
Distributions to non-controlling interests	—	—	—	(2)
Other changes in ownership	33	(3)	30	(33)
Other comprehensive loss	(37)	—	(37)	—
Balance, March 31, 2015	$7,289	$ 34	$7,323	$ 191

Capital of Host L.P.

As of March 31, 2015, 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):

	Capital of Host L.P.	Non-controlling Interests	Total Capital	Limited Partnership Interests of Third Parties
Balance, December 31, 2014	$7,336	$ 32	$7,368	$ 225
Net income	98	5	103	1
Issuance of common OP units	10	—	10	—

Distributions declared on common OP units	(151)	—	(151)	(2)
Distributions to non-controlling interests	—	—	—	—
Other changes in ownership	33	(3)	30	(33)
Other comprehensive loss	(37)	—	(37)	—
Balance, March 31, 2015	$7,289	$ 34	$7,323	$ 191

For Host Inc. and Host L.P., during the first quarter of 2015, we reclassified a net gain of $5 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 the Delta Meadowvale Hotel & Conference Centre and recognized such gain in gain on sale of assets on our consolidated statement of operations.

Dividends/Distributions

On February 17, 2015, Host Inc.'s Board of Directors declared a regular dividend of $0.20 per share on its common stock. The dividend was paid on April 15, 2015 to stockholders of record as of March 31, 2015. Accordingly, Host L.P. made a distribution of $0.2042988 per unit on its common OP units based on the current conversion ratio.

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

6. Dispositions

On March 16, 2015, we sold the Delta Meadowvale Hotel & Conference Centre for approximately C$40 million ($31 million) plus an additional C$2 million ($2 million) for the FF&E replacement fund.

The following table provides summary results of operations for the one hotel sold in 2015 and the five hotels sold in 2014, which are included in continuing operations (in millions):

	Quarter ended March 31, 2015	2014
Revenues	$ 4	$ 31
Income before taxes	—	5
Gain on disposals	3	112

7. 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, 2015 and December 31, 2014, respectively (in millions):

	Balance at March 31, 2015	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]	$28	$ —	$ 28	$ —
Liabilities				
Interest rate swap derivatives [1]	(2)	—	(2)	—

Fair Value at Measurement Date Using

	Balance at December 31, 2014	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]	$13	$ —	$ 13	$ —
Liabilities				
Interest rate swap derivatives [1]	(2)	—	(2)	—
Fair Value Measurements on a Non-recurring Basis:				
Impaired hotel properties sold [2]	—	—	—	18

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(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 the book value as of December 31, 2014.

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 other comprehensive income (loss) on the accompanying balance sheets. The hedges were fully effective as of March 31, 2015.

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

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, 2015	2014
November 2011 [1]	A$ 62	November 2016	Reuters BBSY	6.7 %	$ —	$ —
February 2011 [2]	NZ$ 79	February 2016	NZ$ Bank Bill	7.15 %	$ —	$ —

(1) The swap was entered into in connection with the A$86 million ($66 million) mortgage loan on the Hilton Melbourne South Wharf.
(2) The swap was entered into in connection with the NZ$105 million ($78 million) mortgage loan on seven properties in New Zealand.

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.

The following table summarizes our foreign currency forward 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, 2015	2014
July 2011-May 2014	€ 100	$ 135	August 2015-May 2017	$ 14	$ —
November 2014	C$ 25	$ 22	November 2016	$ 1	$ —

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 Outstanding US$	Balance Outstanding in Foreign Currency	Gain (Loss) Quarter ended March 31, 2015	2014
Canadian dollars [(1)]	$ 36	C$ 46	$ 2	$ 1
Euros	$ 83	€ 77	$ 10	$ —

(1) We have drawn an additional $48 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 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.

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

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

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Senior notes (Level 1)	$2,498	$ 2,665	$2,498	$ 2,668
Exchangeable Senior Debentures (Level 1)	390	630	386	739
Credit facility (Level 2)	685	685	704	704
Mortgage debt and other, excluding capital leases (Level 2)	394	408	403	413

8. 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		Property and Equipment, net	
	Quarter ended March 31,		March 31,	December 31,
	2015	2014	2015	2014
United States	$ 1,258	$ 1,243	$10,089	$ 10,111
Australia	9	9	95	102
Brazil	7	7	67	82
Canada	14	19	55	82
Chile	7	9	43	44
Mexico	7	7	24	26
New Zealand	15	15	122	128
Total	$ 1,317	$ 1,309	$10,495	$ 10,575

9. 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 $34 million and $32 million as of March 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, the fair values of the non-controlling interests in the partnerships with finite lives were approximately $94 million and $85 million, respectively.

Net income attributable to non-controlling interests of consolidated partnerships is included in our determination of net income. Net income attributable to non-controlling interests of third parties was $5 million and $4 million for the quarters ended March 31, 2015 and 2014, 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 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:

	March 31, 2015	December 31, 2014
OP units outstanding (millions)	9.2	9.3
Market price per Host Inc. common share	$20.18	$ 23.77
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	$191	$ 225
Historical cost (millions)	92	94
Book value (millions) (1)	191	225

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(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. for the quarters ended March 31, 2015 and 2014 was $1 million and $2 million, respectively.

10. 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 $4 million as of March 31, 2015 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 and global economic prospects, 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;
- 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 pace of the economic recovery in Europe, or unrest in the Middle East, 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 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 effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks;
- 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 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; 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 make 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, 2014 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 March 31,		
	2015	2014	Change
Total revenues	$ 1,317	$ 1,309	0.6 %
Net income	104	185	(43.8)%
Operating profit	144	134	7.5 %
Operating profit margin under GAAP	10.9 %	10.2 %	70 bps
Adjusted EBITDA (1)	$ 321	$ 308	4.2 %
Diluted earnings per share	$ .13	$ .24	(45.8)%
NAREIT FFO per diluted share (1)	.35	.32	9.4 %
Adjusted FFO per diluted share (1)	.35	.33	6.1 %

Comparable Hotel Data:

	2015 Comparable Hotels (2)		
	Quarter ended March 31,		
	2015	2014	Change
Comparable hotel revenues (1)	$ 1,267	$ 1,231	3.0 %
Comparable hotel EBITDA (1)	324	309	5.0 %
Comparable hotel EBITDA margin (1)	25.6 %	25.1 %	50 bps
Change in comparable hotel RevPAR - Constant US$	3.8 %		
Change in comparable hotel RevPAR - Nominal US$	3.0 %		
Change in comparable domestic RevPAR	3.9 %		

Change in comparable international RevPAR - Constant US$	1.3	%

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(1) Adjusted EBITDA, NAREIT FFO and Adjusted FFO per diluted share and comparable hotel operating results (including comparable hotel revenues and comparable hotel EBITDA 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 that 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 2015 and 2014 are based on 106 hotels as of March 31, 2015.

Revenue per Available Room (“RevPAR”)

Comparable RevPAR on a constant dollar basis improved 3.8% for the quarter, driven by rate growth of 4.8%, partially offset by a decrease in occupancy of 0.7 percentage points. Improving group demand for the quarter, as well as relatively high occupancy rates overall, has allowed our operators to strengthen average room rates. However, certain factors in individual markets as well as significant disruption due to renovations of rooms and public spaces at several of our properties led to a decrease in occupancy levels. Our domestic portfolio growth of 3.9% was led by our west coast markets, including San Francisco and Phoenix, with both markets experiencing double-digit RevPAR growth. Our east coast markets lagged the portfolio, as New York and Washington, D.C. continue to be impacted by new supply and renovation disruption, respectively; however our Boston market outperformed with a 20.5% increase in RevPAR in the first quarter, with average room rates increasing 9.5% and occupancy up over 6 percentage points. At our international properties, RevPAR increased 1.3%, on a constant U.S. dollar basis, however, excluding the Calgary Marriott Downtown, which experienced a RevPAR decrease of 42% during the quarter due to renovation, our international properties had a RevPAR increase of 6.0%.

Rooms

Our comparable room revenue increased 3.0% for the quarter, reflecting a 3.8% increase in comparable RevPAR on a constant dollar basis, partially offset by currency translation effects for our international properties. At the same time, comparable rooms expenses declined slightly for the quarter as the improvements in RevPAR were rate driven, as opposed to occupancy, which will typically allow our operators to limit the growth in departmental costs, particularly wages and benefits, and improve overall profitability.

Total revenues

Total revenues increased 0.6% for the quarter, reflecting revenue growth of 3.0% at our comparable properties, partially offset by disposition activity that exceeded acquisitions over the past twelve months and reduced total revenue growth by $23 million for the quarter. Revenue growth for our comparable properties was significantly affected by rooms and meeting space renovations underway during the first quarter of 2015.

Operating profit

Operating profit margins (calculated based on GAAP operating profit as a percentage of GAAP revenues) increased 70 basis points for the first quarter 2015, as compared to the same period in 2014. These operating profit margins are affected significantly by several items, including operations from recently acquired hotels, depreciation, impairment expense, and corporate expenses. Our comparable hotel EBITDA margins, which exclude these items, increased 50 basis points for the first quarter 2015 compared to first quarter 2014. The improvement in comparable hotel EBITDA margins was driven by the improvements in average room rates and slower growth in operating costs, which increased 2.3% for the quarter at our comparable hotels.

Net income

Net income for the quarter decreased $81 million, or 43.8%, due to a decrease of $108 million in gains on sales of assets, partially offset by improvements in operations and declines in both interest expense and corporate expenses. Adjusted EBITDA increased $13 million, or 4.2%, as improvements in operations partially were offset by the greater level of dispositions than acquisitions, which reduced Adjusted EBITDA by $6 million compared to first quarter 2014. The improvements in operations, as well as the reduction in interest expense, led to a $0.02, or 6.1%, increase in Adjusted FFO per diluted share for the quarter.

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.

Outlook

For the remainder of 2015, we expect continued strength in the U.S. lodging industry as overall growth in GDP, driven by employment, consumer confidence and business investment, is expected to continue to drive consistent demand growth. At the same time, we anticipate that supply growth will increase compared to recent years, but will remain below historical levels for the industry overall, although growth in individual markets may vary. As a result, we expect that the majority of the 2015 RevPAR growth will be rate driven, which should lead to improvements in our operating margins and results. However, several near-term trends that negatively affected results in the first quarter of 2015 are expected to continue to hinder 2015 operating results. These trends include (i) recent underperformance in the New York and Washington, D.C. markets, which represent approximately 27% of our revenue on an annual basis and (ii) increased disruption within our portfolio as discussed below. Additionally, our results could be impacted due to the expected continued strength of the US Dollar.

We experienced a significant amount of disruption in the first quarter of 2015 to hotels that are included in our comparable operating results due to renovations of guest rooms and public space. First quarter projects represented 35% of our projected renewal and replacement expenditures for the entire year and exceeded similar expenditures in the first quarter 2014 by 65%. We expect the impact from these types of projects to moderate throughout the year, though it will continue to negatively affect our comparable hotel operating statistics, net income and Adjusted EBITDA. Separately, disruption from redevelopment and ROI projects will increase throughout the year, as only 16% of our projected spend was completed in the first quarter, including three hotels that will be closed for redevelopment during the second quarter. For the full year 2015, seven properties have been, or will be, excluded from our comparable hotel statistics due to these projects, but will still negatively impact growth in revenues, net income and Adjusted EBITDA. We expect to see meaningful growth as a result of these projects beginning in 2016. Despite these headwinds and the issues discussed in the preceding paragraph, we anticipate that strong transient demand and improvement in group performance will result in expected comparable hotel RevPAR growth for 2015 of 4.5% to 5.5% on a constant US$ basis.

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.

Strategic Initiatives

Stock Repurchase Program

As we have achieved our long term balance sheet objectives and expect to continue to generate cash from operations and proceeds of asset sales, Host Inc.'s Board of Directors has authorized a program to repurchase up to $500 million of common stock. The common stock may be purchased in the open market or through private transactions from time to time over the next 18 months depending upon market conditions. The level of purchases will also depend upon operating results, funds generated by sales activity, dividends that may be required by those sales, and investment options that may be available, including reinvesting in our portfolio or acquiring new hotels, as well as maintaining our strong leverage position. The plan does not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion.

Portfolio

Acquisitions. We continue to seek investment opportunities in our target markets, which we have identified as those that are expected over the long term to have the greatest lodging demand growth, the fewest additions to supply, and the strongest potential for revenue growth. We continue to see a high level of competition for acquisitions in our target markets due to the accessibility 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.

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. Consistent with this strategy, we sold the Delta Meadowvale Hotel & Conference Centre for a sales price of C$40 million ($31 million), plus an additional C$2 million ($2 million) for the FF&E replacement fund, during the first quarter of 2015.

Capital Investment

Value enhancement. We have continued to make significant progress on our strategic initiative to evaluate and opportunistically adjust the operator, brand and contract terms of each of our hotels. This may include new relationships with independent operators that may be an improved fit for smaller or unique properties. We believe successful execution of these projects will create value for the company. These value enhancement initiatives include:

- We completed an agreement in April to convert The Ritz-Carlton, Phoenix to an independent hotel to be operated by Destination Hotels. The property will close in July 2015 for extensive renovation work and reopen in early 2016 as part of the Autograph Collection.
- We continued our progress on the rebranding of the Four Seasons Philadelphia to an independent luxury hotel to be operated by Sage Hospitality. The property will close in June 2015 in order to expedite the renovation and we anticipate it will reopen by the end of the year.

Capital Expenditures Projects. We continue to pursue opportunities to invest in our existing portfolio 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 1,412 guestrooms, over 180,000 square feet of meeting space and approximately 40,000 square feet of public space.

- Redevelopment and Return on Investment and Acquisition Capital Expenditures. Redevelopment and return on investment (“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, the repositioning of a hotel restaurant, the installation of energy efficient systems or the conversion of underutilized space to more profitable uses. Additionally, in conjunction with the acquisition of a property, we prepare capital and operational improvement plans designed to maximize profitability. We spent approximately $45 million for these projects during the first quarter of 2015, compared to $14 million during the first quarter of 2014. Projects completed during the first quarter include the conversion of an existing restaurant to approximately 4,800 square feet of meeting space at the Hilton Melbourne South Wharf, the conversion of underutilized space at the Hyatt Regency Maui Resort & Spa into approximately 6,300 square feet of meeting space and the renovation of over 13,000 square feet of public space at the Marina del Rey Marriott.

For 2015, we anticipate completing several large-scale redevelopment projects which entail the closure of hotels and meeting spaces. We expect that ROI projects, including acquisition capital expenditures, for 2015 will range from $270 million to $285 million.

- Renewal and Replacement Capital Expenditures. We spent $125 million on renewal and replacement capital expenditures during the first quarter of 2015 compared to $76 million during the first quarter 2014. 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. Major renewal and replacement projects in process during the first quarter included rooms renovations at the Calgary Marriott Downtown, JW Marriott Washington, D.C., JW Marriott Houston, San Antonio Marriott Riverwalk, The Westin South Coast Plaza Costa Mesa and The Westin Chicago River North as well as lobby and meeting space renovations at the Grand Hyatt Washington, The Westin Seattle and Boston Marriott Copley Place. We expect that our investment in renewal and replacement expenditures in 2015 will total approximately $335 million to $355 million.

Results of Operations

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

	Quarter ended March 31, 2015	2014	Change
Total revenues	$ 1,317	$ 1,309	0.6 %
Operating costs and expenses:			
Property-level costs [1]	1,149	1,144	0.4
Corporate and other expenses	24	34	(29.4)
Gain on insurance settlements	—	3	N/M
Operating profit	144	134	7.5
Interest expense	51	58	(12.1)
Gain on sale of assets	4	112	(96.4)
Benefit for income taxes	9	4	125.0
Host Inc.:			
Net income attributable to non-controlling interests	$ 6	$ 6	—
Net income attributable to Host Inc.	98	179	(45.3)
Host L.P.:			
Net income attributable to non-controlling interests	$ 5	$ 4	25.0
Net income attributable to Host L.P.	99	181	(45.3)

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(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.

Statement of Operations Results and Trends

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 operations for the first quarter of 2015 were affected by the sale of one hotel in the first quarter of 2015 and five hotels during 2014, which operations prior to sale are included in continuing operations for prior periods, as well as the acquisition or new development of four hotels: the YVE Hotel Miami acquired in August 2014, the Axiom Hotel acquired in January 2014, and the ibis and Novotel Rio de Janeiro Parque Olimpico hotels, which opened in the fourth quarter of 2014. Additionally, on January 1, 2015, our operators adopted the 11th edition of the Uniform System of Accounts for the Lodging Industry (“USALI”), which reclassifies certain revenue and expense items. The 2014 results were not restated for the changes and therefore impact our comparative operating results. Please see “-Comparable Hotel Operating Results” for further discussion.

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,		
	2015	2014	Change
Revenues:			
Rooms	$ 818	$ 808	1.2 %
Food and beverage	403	405	(0.5)
Other	96	96	—
Total revenues	$ 1,317	$ 1,309	0.6

Rooms. The improvement in rooms revenues reflects the overall improvement in comparable RevPAR, partially offset by the effect of our Recent Acquisitions and Dispositions. For the first quarter, comparable hotel RevPAR on a constant US$ basis increased 3.8%, driven by average rate improvement of 4.8%. The increase in rooms revenues was offset partially by a net decrease of $13 million for the quarter due to the results of our Recent Acquisitions and Dispositions.

Food and beverage. The decline in food and beverage ("F&B") revenues for the quarter was due to the effect of our Recent Acquisitions and Dispositions, which had a net negative effect of $8 million for the quarter. Additionally, F&B revenues include a decrease of $5 million for the first quarter at our non-comparable properties that are under renovation. On a comparable hotel basis, F&B revenues increased $13 million, or 3.2%, for the quarter, with a 3.3% growth in banquet revenue and a 2.9% growth in outlet revenue. The growth in comparable F&B revenues includes the impact of certain reclassifications as a result of the adoption of USALI. We estimate the USALI effect increased comparable F&B revenues by approximately 300 basis points.

Property-level Operating Expenses

The following table presents property-level operating expenses in accordance with GAAP and includes both comparable and non-comparable hotels (in millions, except percentages):

	Quarter ended March 31,		
	2015	2014	Change
Expenses:			
Rooms	$ 220	$ 226	(2.7)%
Food and beverage	283	284	(0.4)
Other departmental and support expenses	321	315	1.9
Management fees	52	50	4.0
Other property-level expenses	98	97	1.0
Depreciation and amortization	175	172	1.7
Total property-level operating expenses	$ 1,149	$ 1,144	0.4

Our operating costs and expenses, which have both fixed and variable components, are affected by changes in occupancy, inflation, and revenues (which affect management fees), though the effect on specific costs will differ. Our wages and benefits account for approximately 56% of the operating expenses at our hotels (which exclude depreciation). Other property level expenses consist of property taxes, the amounts and structure of which are highly dependent on local jurisdiction taxing authorities, and property and general liability insurance, all of which do not necessarily increase or decrease based on similar changes in revenues at our hotels.

Rooms. Rooms expenses decreased $6 million for the first quarter, reflecting a slight decrease of 0.8% at our comparable hotels for the first quarter. Cost per occupied room for the quarter was flat compared to 2014 due to an improvement in hourly productivity offset by a slight increase in controllable expenses and wages and benefits. In addition, rooms expense was also affected by a net decrease of $3 million for the quarter due to the results of our Recent Acquisitions and Dispositions.

Food and beverage. Continued improvements in F&B hourly productivity at our comparable hotels led to a decline in F&B costs as a percentage of revenues, compared to 2014. Comparable F&B expenses increased $7 million to $277 million for the quarter. In addition, the change in F&B expenses for the quarter was affected by a decrease of

$5 million due to the results of our Recent Acquisitions and Dispositions.

Other departmental and support expenses. Other departmental and support expenses increased $6 million for the first quarter, primarily due to increased credit card fees, wages and benefits, sales and marketing costs and information system expenses. The increases in other departmental and support expenses were offset partially by a net decrease of $6 million for the quarter due to the results of our Recent Acquisitions and Dispositions.

Management fees. For the first quarter 2015, base management fees, which generally are calculated as a percentage of total revenues, decreased $1 million to $41 million. Incentive management fees, which generally are based on the level of operating profit at each property after we receive a priority return on our investment, increased 2.9% to $13 million as 61 of our properties earned incentive management fees for the first quarter of 2015.

Other Income and Expense

Corporate and other expenses. Corporate and other expenses include the following items (in millions):

	Quarter ended March 31, 2015	2014
General and administrative cost	$ 25	$ 23
Non-cash stock-based compensation expense	5	4
Litigation (recoveries) accruals and acquisition costs, net	(6)	7
Total corporate and other expenses	$ 24	$ 34

Interest expense. Interest expense decreased $7 million for the first quarter compared to the corresponding 2014 period, primarily due to the repayment or refinancing of debt in the first quarter of 2014, which lowered our overall debt balance, and a decrease of $3 million in debt extinguishment costs for the first quarter. The following table details our interest expense for the quarter (in millions):

	Quarter ended March 31, 2015	2014
Cash interest expense[(1)]	$ 45	$ 49
Non-cash interest expense	6	6
Non-cash debt extinguishment costs	—	1
Cash debt extinguishment costs[(1)]	—	2
Total interest expense	$ 51	$ 58

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(1) Including the change in accrued interest, total cash interest expense paid was $44 million and $50 million for the first quarter of 2015 and 2014, respectively.

Gain (loss) on sale of assets. During the first quarter of 2015, we recognized a $3 million gain on the sale of the Delta Meadowvale Hotel & Conference Centre. During the first quarter of 2014, we recognized a $112 million gain on the sale of an 89% interest in the Philadelphia Marriott Downtown.

Equity in earnings (losses) of affiliates. Equity in earnings of affiliates primarily reflects our interest in the operations of the Euro JV. The improvement in equity in earnings in the first quarter 2015 primarily results from sales of timeshares at our Maui timeshare joint venture and an improvement in operations combined with a decrease in interest expense at our Euro JV.

Provision for income taxes. We lease substantially all of our properties to consolidated subsidiaries designated as taxable REIT subsidiaries (“TRS”) for federal income tax purposes. The difference between hotel-level operating cash flow and the aggregate rent paid to Host L.P. by the TRS represents its taxable income or loss, on which we record an income tax provision or benefit. The income tax benefit recorded in the first quarter 2015 primarily reflects that rent expense for the quarter paid to Host L.P. exceeded the operating profit at the hotels.

Comparable Hotel Sales Overview

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, 2015, 106 of our 113 owned hotels are 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).

27

Comparable Hotel Sales by Geographic Market

The following tables set forth performance information for our comparable hotels by geographic market as of March 31, 2015 and 2014, respectively:

Comparable Hotels by Market in Constant US$

	As of March 31, 2015		Quarter ended March 31, 2015			Quarter ended March 31, 2014			
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									