

HOST HOTELS & RESORTS, INC.

Form 10-Q

August 08, 2018

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 June 30, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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Host Hotels & Resorts, Inc. Yes No

Host Hotels & Resorts, L.P. Yes No

As of August 6, 2018 there were 741,677,444 shares of Host Hotels & Resorts, Inc.'s common stock, \$.01 par value per share, outstanding.

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## 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, 2017 under the heading “Explanatory Note.”

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

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## HOST HOTELS &amp; RESORTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2018 and December 31, 2017

(in millions, except share and per share amounts)

|                                                                                                                                                          | June 30,<br>2018<br>(unaudited) | December<br>31, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                            |                                 |                      |
| Property and equipment, net                                                                                                                              | \$ 10,377                       | \$ 9,692             |
| Assets held for sale                                                                                                                                     | 163                             | 250                  |
| Due from managers                                                                                                                                        | 161                             | 79                   |
| Advances to and investments in affiliates                                                                                                                | 322                             | 327                  |
| Furniture, fixtures and equipment replacement fund                                                                                                       | 199                             | 195                  |
| Other                                                                                                                                                    | 207                             | 237                  |
| Cash and cash equivalents                                                                                                                                | 646                             | 913                  |
| Total assets                                                                                                                                             | \$ 12,075                       | \$ 11,693            |
| <b>LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY</b>                                                                                                 |                                 |                      |
| <b>Debt</b>                                                                                                                                              |                                 |                      |
| Senior notes                                                                                                                                             | \$ 2,780                        | \$ 2,778             |
| Credit facility, including term loans of \$997 million and \$996 million,<br>respectively                                                                | 1,442                           | 1,170                |
| Other debt                                                                                                                                               | 6                               | 6                    |
| Total debt                                                                                                                                               | 4,228                           | 3,954                |
| Accounts payable and accrued expenses                                                                                                                    | 242                             | 283                  |
| Other                                                                                                                                                    | 266                             | 287                  |
| Total liabilities                                                                                                                                        | 4,736                           | 4,524                |
| Non-controlling interests - Host Hotels & Resorts, L.P.                                                                                                  | 173                             | 167                  |
| <b>Host Hotels &amp; Resorts, Inc. stockholders' equity:</b>                                                                                             |                                 |                      |
| Common stock, par value \$.01, 1,050 million shares authorized,<br>739.8 million shares and 739.1 million shares issued and<br>outstanding, respectively | 7                               | 7                    |
| Additional paid-in capital                                                                                                                               | 8,100                           | 8,097                |
| Accumulated other comprehensive loss                                                                                                                     | (68 )                           | (60 )                |
| Deficit                                                                                                                                                  | (901 )                          | (1,071 )             |
| Total equity of Host Hotels & Resorts, Inc. stockholders                                                                                                 | 7,138                           | 6,973                |
| Non-controlling interests—other consolidated partnerships                                                                                                | 28                              | 29                   |
| Total equity                                                                                                                                             | 7,166                           | 7,002                |

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|                                                         |           |           |
|---------------------------------------------------------|-----------|-----------|
| Total liabilities, non-controlling interests and equity | \$ 12,075 | \$ 11,693 |
|---------------------------------------------------------|-----------|-----------|

See notes to condensed consolidated financial statements.



## HOST HOTELS &amp; RESORTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions, except per share amounts)

|                                                                   | Quarter ended<br>June 30, |              | Year-to-date<br>ended June 30, |              |
|-------------------------------------------------------------------|---------------------------|--------------|--------------------------------|--------------|
|                                                                   | 2018                      | 2017         | 2018                           | 2017         |
| <b>REVENUES</b>                                                   |                           |              |                                |              |
| Rooms                                                             | \$973                     | \$940        | \$1,817                        | \$1,783      |
| Food and beverage                                                 | 449                       | 416          | 862                            | 838          |
| Other                                                             | 96                        | 85           | 185                            | 168          |
| <b>Total revenues</b>                                             | <b>1,518</b>              | <b>1,441</b> | <b>2,864</b>                   | <b>2,789</b> |
| <b>EXPENSES</b>                                                   |                           |              |                                |              |
| Rooms                                                             | 238                       | 230          | 462                            | 449          |
| Food and beverage                                                 | 290                       | 275          | 568                            | 552          |
| Other departmental and support expenses                           | 336                       | 324          | 651                            | 643          |
| Management fees                                                   | 73                        | 69           | 127                            | 125          |
| Other property-level expenses                                     | 99                        | 97           | 197                            | 197          |
| Depreciation and amortization                                     | 189                       | 178          | 367                            | 358          |
| Corporate and other expenses                                      | 30                        | 26           | 58                             | 55           |
| Gain on insurance and business interruption settlements           | —                         | (2 )         | —                              | (5 )         |
| <b>Total operating costs and expenses</b>                         | <b>1,255</b>              | <b>1,197</b> | <b>2,430</b>                   | <b>2,374</b> |
| <b>OPERATING PROFIT</b>                                           | <b>263</b>                | <b>244</b>   | <b>434</b>                     | <b>415</b>   |
| Interest income                                                   | 2                         | 1            | 5                              | 2            |
| Interest expense                                                  | (45 )                     | (43 )        | (89 )                          | (82 )        |
| Gain on sale of assets                                            | —                         | 29           | 120                            | 46           |
| Loss on foreign currency transactions and derivatives             | (1 )                      | —            | (1 )                           | (2 )         |
| Equity in earnings of affiliates                                  | 9                         | 8            | 19                             | 15           |
| <b>INCOME BEFORE INCOME TAXES</b>                                 | <b>228</b>                | <b>239</b>   | <b>488</b>                     | <b>394</b>   |
| Provision for income taxes                                        | (17 )                     | (27 )        | (21 )                          | (21 )        |
| <b>NET INCOME</b>                                                 | <b>211</b>                | <b>212</b>   | <b>467</b>                     | <b>373</b>   |
| Less: Net income attributable to non-controlling interests        | (2 )                      | (2 )         | (5 )                           | (5 )         |
| <b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp; RESORTS, INC.</b> | <b>\$209</b>              | <b>\$210</b> | <b>\$462</b>                   | <b>\$368</b> |
| <b>Basic earnings per common share</b>                            | <b>\$.28</b>              | <b>\$.28</b> | <b>\$.62</b>                   | <b>\$.50</b> |
| <b>Diluted earnings per common share</b>                          | <b>\$.28</b>              | <b>\$.28</b> | <b>\$.62</b>                   | <b>\$.50</b> |

See notes to condensed consolidated financial statements.



## HOST HOTELS &amp; RESORTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions)

|                                                             | Quarter<br>ended June<br>30, |       | Year-to-date<br>ended June<br>30, |       |
|-------------------------------------------------------------|------------------------------|-------|-----------------------------------|-------|
|                                                             | 2018                         | 2017  | 2018                              | 2017  |
| NET INCOME                                                  | \$211                        | \$212 | \$467                             | \$373 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:              |                              |       |                                   |       |
| Foreign currency translation and other comprehensive income |                              |       |                                   |       |
| of unconsolidated affiliates                                | (14 )                        | 8     | (8 )                              | 15    |
| Change in fair value of derivative instruments              | 1                            | (9 )  | —                                 | (10 ) |
| Amounts reclassified from other comprehensive income (loss) | —                            | 2     | —                                 | 1     |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX               | (13 )                        | 1     | (8 )                              | 6     |
| COMPREHENSIVE INCOME                                        | 198                          | 213   | 459                               | 379   |
| Less: Comprehensive income attributable to non-controlling  |                              |       |                                   |       |
| interests                                                   | (2 )                         | (4 )  | (5 )                              | (6 )  |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST                   |                              |       |                                   |       |
| HOTELS & RESORTS, INC.                                      | \$196                        | \$209 | \$454                             | \$373 |

See notes to condensed consolidated financial statements.

## HOST HOTELS &amp; RESORTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions)

|                                                            | Year-to-date<br>ended June 30, |        |
|------------------------------------------------------------|--------------------------------|--------|
|                                                            | 2018                           | 2017   |
| <b>OPERATING ACTIVITIES</b>                                |                                |        |
| Net income                                                 | \$467                          | \$373  |
| Adjustments to reconcile to cash provided by operations:   |                                |        |
| Depreciation and amortization                              | 367                            | 358    |
| Amortization of finance costs, discounts and premiums, net | 3                              | 3      |
| Stock compensation expense                                 | 7                              | 5      |
| Deferred income taxes                                      | —                              | 20     |
| Gain on sale of assets                                     | (120 )                         | (46 )  |
| Loss on foreign currency transactions and derivatives      | 1                              | 2      |
| Equity in earnings of affiliates                           | (19 )                          | (15 )  |
| Change in due from managers                                | (81 )                          | (59 )  |
| Distributions from investments in affiliates               | 17                             | 13     |
| Changes in other assets                                    | 25                             | (23 )  |
| Changes in other liabilities                               | (12 )                          | (16 )  |
| Net cash provided by operating activities                  | 655                            | 615    |
| <b>INVESTING ACTIVITIES</b>                                |                                |        |
| Proceeds from sales of assets, net                         | 362                            | 226    |
| Return of investments in affiliates                        | 1                              | 4      |
| Advances to and investments in affiliates                  | (3 )                           | —      |
| Acquisitions                                               | (1,019 )                       | (467 ) |
| Capital expenditures:                                      |                                |        |
| Renewals and replacements                                  | (143 )                         | (111 ) |
| Return on investment                                       | (58 )                          | (32 )  |
| Property insurance proceeds                                | 1                              | —      |
| Net cash used in investing activities                      | (859 )                         | (380 ) |
| <b>FINANCING ACTIVITIES</b>                                |                                |        |
| Financing costs                                            | —                              | (9 )   |
| Issuances of debt                                          | —                              | 398    |
| Draws on credit facility                                   | 360                            | 340    |
| Repayment of credit facility                               | (75 )                          | (340 ) |
| Dividends on common stock                                  | (333 )                         | (332 ) |
| Other financing activities                                 | (7 )                           | (2 )   |
| Net cash provided by (used in) financing activities        | (55 )                          | 55     |
| Effects of exchange rate changes on cash held              | (4 )                           | 4      |

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND

|                                                              |        |       |
|--------------------------------------------------------------|--------|-------|
| RESTRICTED CASH                                              | (263 ) | 294   |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING     |        |       |
| OF PERIOD                                                    | 1,109  | 544   |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD | \$846  | \$838 |

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Year-to-date ended June 30, 2018 and 2017

(unaudited)

Supplemental disclosure of cash flow information (in millions):

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet to the amount shown in the statements of cash flows:

|                                                                                           | June<br>30,<br>2018 | June<br>30,<br>2017 |
|-------------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                                                                 | \$ 646              | \$ 644              |
| Restricted cash (included in other assets)                                                | 1                   | 2                   |
| Cash included in furniture, fixtures and equipment replacement fund                       | 199                 | 192                 |
| Total cash and cash equivalents and restricted cash shown in the statements of cash flows | \$ 846              | \$ 838              |

The following table presents cash paid during the year-to-date for the following:

|                     | Year-to-date<br>ended June<br>30, |       |
|---------------------|-----------------------------------|-------|
|                     | 2018                              | 2017  |
| Total interest paid | \$ 83                             | \$ 72 |
| Income taxes paid   | \$ 22                             | \$ 15 |

See notes to condensed consolidated financial statements.

## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2018 and December 31, 2017

(in millions)

|                                                                                           | June 30,<br>2018<br>(unaudited) | December<br>31, 2017 |
|-------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                                                             |                                 |                      |
| Property and equipment, net                                                               | \$ 10,377                       | \$ 9,692             |
| Assets held for sale                                                                      | 163                             | 250                  |
| Due from managers                                                                         | 161                             | 79                   |
| Advances to and investments in affiliates                                                 | 322                             | 327                  |
| Furniture, fixtures and equipment replacement fund                                        | 199                             | 195                  |
| Other                                                                                     | 207                             | 237                  |
| Cash and cash equivalents                                                                 | 646                             | 913                  |
| Total assets                                                                              | \$ 12,075                       | \$ 11,693            |
| <b>LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL</b>            |                                 |                      |
| <b>Debt</b>                                                                               |                                 |                      |
| Senior notes                                                                              | \$ 2,780                        | \$ 2,778             |
| Credit facility, including term loans of \$997 million and \$996 million,<br>respectively | 1,442                           | 1,170                |
| Other debt                                                                                | 6                               | 6                    |
| Total debt                                                                                | 4,228                           | 3,954                |
| Accounts payable and accrued expenses                                                     | 242                             | 283                  |
| Other                                                                                     | 266                             | 287                  |
| Total liabilities                                                                         | 4,736                           | 4,524                |
| Limited partnership interests of third parties                                            | 173                             | 167                  |
| <b>Host Hotels &amp; Resorts, L.P. capital:</b>                                           |                                 |                      |
| General partner                                                                           | 1                               | 1                    |
| Limited partner                                                                           | 7,205                           | 7,032                |
| Accumulated other comprehensive loss                                                      | (68 )                           | (60 )                |
| Total Host Hotels & Resorts, L.P. capital                                                 | 7,138                           | 6,973                |
| Non-controlling interests—consolidated partnerships                                       | 28                              | 29                   |
| Total capital                                                                             | 7,166                           | 7,002                |
| Total liabilities, limited partnership interest of third parties and<br>capital           | \$ 12,075                       | \$ 11,693            |

See notes to condensed consolidated financial statements.





## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions, except per unit amounts)

|                                                            | Quarter ended<br>June 30, |              | Year-to-date<br>ended June 30, |              |
|------------------------------------------------------------|---------------------------|--------------|--------------------------------|--------------|
|                                                            | 2018                      | 2017         | 2018                           | 2017         |
| <b>REVENUES</b>                                            |                           |              |                                |              |
| Rooms                                                      | \$973                     | \$940        | \$1,817                        | \$1,783      |
| Food and beverage                                          | 449                       | 416          | 862                            | 838          |
| Other                                                      | 96                        | 85           | 185                            | 168          |
| <b>Total revenues</b>                                      | <b>1,518</b>              | <b>1,441</b> | <b>2,864</b>                   | <b>2,789</b> |
| <b>EXPENSES</b>                                            |                           |              |                                |              |
| Rooms                                                      | 238                       | 230          | 462                            | 449          |
| Food and beverage                                          | 290                       | 275          | 568                            | 552          |
| Other departmental and support expenses                    | 336                       | 324          | 651                            | 643          |
| Management fees                                            | 73                        | 69           | 127                            | 125          |
| Other property-level expenses                              | 99                        | 97           | 197                            | 197          |
| Depreciation and amortization                              | 189                       | 178          | 367                            | 358          |
| Corporate and other expenses                               | 30                        | 26           | 58                             | 55           |
| Gain on insurance and business interruption settlements    | —                         | (2 )         | —                              | (5 )         |
| <b>Total operating costs and expenses</b>                  | <b>1,255</b>              | <b>1,197</b> | <b>2,430</b>                   | <b>2,374</b> |
| <b>OPERATING PROFIT</b>                                    | <b>263</b>                | <b>244</b>   | <b>434</b>                     | <b>415</b>   |
| Interest income                                            | 2                         | 1            | 5                              | 2            |
| Interest expense                                           | (45 )                     | (43 )        | (89 )                          | (82 )        |
| Gain on sale of assets                                     | —                         | 29           | 120                            | 46           |
| Loss on foreign currency transactions and derivatives      | (1 )                      | —            | (1 )                           | (2 )         |
| Equity in earnings of affiliates                           | 9                         | 8            | 19                             | 15           |
| <b>INCOME BEFORE INCOME TAXES</b>                          | <b>228</b>                | <b>239</b>   | <b>488</b>                     | <b>394</b>   |
| Provision for income taxes                                 | (17 )                     | (27 )        | (21 )                          | (21 )        |
| <b>NET INCOME</b>                                          | <b>211</b>                | <b>212</b>   | <b>467</b>                     | <b>373</b>   |
| Less: Net income attributable to non-controlling interests | —                         | —            | —                              | (1 )         |
| <b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp;</b>        |                           |              |                                |              |
| <b>RESORTS, L.P.</b>                                       | <b>\$211</b>              | <b>\$212</b> | <b>\$467</b>                   | <b>\$372</b> |
| Basic earnings per common unit                             | \$.29                     | \$.29        | \$.64                          | \$.51        |
| Diluted earnings per common unit                           | \$.29                     | \$.29        | \$.64                          | \$.51        |

See notes to condensed consolidated financial statements.

## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions)

|                                                             | Quarter<br>ended June<br>30, |       | Year-to-date<br>ended June<br>30, |       |
|-------------------------------------------------------------|------------------------------|-------|-----------------------------------|-------|
|                                                             | 2018                         | 2017  | 2018                              | 2017  |
| NET INCOME                                                  | \$211                        | \$212 | \$467                             | \$373 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:              |                              |       |                                   |       |
| Foreign currency translation and other comprehensive income |                              |       |                                   |       |
| of unconsolidated affiliates                                | (14 )                        | 8     | (8 )                              | 15    |
| Change in fair value of derivative instruments              | 1                            | (9 )  | —                                 | (10 ) |
| Amounts reclassified from other comprehensive income (loss) | —                            | 2     | —                                 | 1     |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX               | (13 )                        | 1     | (8 )                              | 6     |
| COMPREHENSIVE INCOME                                        | 198                          | 213   | 459                               | 379   |
| Less: Comprehensive income attributable to non-controlling  |                              |       |                                   |       |
| interests                                                   | —                            | (2 )  | —                                 | (2 )  |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST                   |                              |       |                                   |       |
| HOTELS & RESORTS, L.P.                                      | \$198                        | \$211 | \$459                             | \$377 |

See notes to condensed consolidated financial statements.

## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2018 and 2017

(unaudited, in millions)

|                                                            | Year-to-date<br>ended June 30, |        |
|------------------------------------------------------------|--------------------------------|--------|
|                                                            | 2018                           | 2017   |
| <b>OPERATING ACTIVITIES</b>                                |                                |        |
| Net income                                                 | \$467                          | \$373  |
| Adjustments to reconcile to cash provided by operations:   |                                |        |
| Depreciation and amortization                              | 367                            | 358    |
| Amortization of finance costs, discounts and premiums, net | 3                              | 3      |
| Stock compensation expense                                 | 7                              | 5      |
| Deferred income taxes                                      | —                              | 20     |
| Gain on sale of assets                                     | (120 )                         | (46 )  |
| Loss on foreign currency transactions and derivatives      | 1                              | 2      |
| Equity in earnings of affiliates                           | (19 )                          | (15 )  |
| Change in due from managers                                | (81 )                          | (59 )  |
| Distributions from investments in affiliates               | 17                             | 13     |
| Changes in other assets                                    | 25                             | (23 )  |
| Changes in other liabilities                               | (12 )                          | (16 )  |
| Net cash provided by operating activities                  | 655                            | 615    |
| <b>INVESTING ACTIVITIES</b>                                |                                |        |
| Proceeds from sales of assets, net                         | 362                            | 226    |
| Return of investments in affiliates                        | 1                              | 4      |
| Advances to and investments in affiliates                  | (3 )                           | —      |
| Acquisitions                                               | (1,019 )                       | (467 ) |
| Capital expenditures:                                      |                                |        |
| Renewals and replacements                                  | (143 )                         | (111 ) |
| Return on investment                                       | (58 )                          | (32 )  |
| Property insurance proceeds                                | 1                              | —      |
| Net cash used in investing activities                      | (859 )                         | (380 ) |
| <b>FINANCING ACTIVITIES</b>                                |                                |        |
| Financing costs                                            | —                              | (9 )   |
| Issuances of debt                                          | —                              | 398    |
| Draws on credit facility                                   | 360                            | 340    |
| Repayment of credit facility                               | (75 )                          | (340 ) |
| Distributions on common OP units                           | (337 )                         | (336 ) |
| Other financing activities                                 | (3 )                           | 2      |
| Net cash provided by (used in) financing activities        | (55 )                          | 55     |
| Effects of exchange rate changes on cash held              | (4 )                           | 4      |

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND

|                                                              |        |       |
|--------------------------------------------------------------|--------|-------|
| RESTRICTED CASH                                              | (263 ) | 294   |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING     |        |       |
| OF PERIOD                                                    | 1,109  | 544   |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD | \$846  | \$838 |

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Year-to-date ended June 30, 2018 and 2017

(unaudited)

Supplemental disclosure of cash flow information (in millions):

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet to the amount shown in the statements of cash flows:

|                                                                                           | June<br>30,<br>2018 | June<br>30,<br>2017 |
|-------------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                                                                 | \$ 646              | \$ 644              |
| Restricted cash (included in other assets)                                                | 1                   | 2                   |
| Cash included in furniture, fixtures and equipment replacement fund                       | 199                 | 192                 |
| Total cash and cash equivalents and restricted cash shown in the statements of cash flows | \$ 846              | \$ 838              |

The following table presents cash paid during the year-to-date for the following:

|                     | Year-to-date<br>ended June<br>30, |       |
|---------------------|-----------------------------------|-------|
|                     | 2018                              | 2017  |
| Total interest paid | \$ 83                             | \$ 72 |
| Income taxes paid   | \$ 22                             | \$ 15 |

See notes to condensed consolidated financial 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 June 30, 2018, Host Inc. holds approximately 99% of Host L.P.’s OP units.

#### Consolidated Portfolio

As of June 30, 2018, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

|               | Hotels |
|---------------|--------|
| United States | 89     |
| Brazil        | 3      |
| Canada        | 2      |
| Mexico        | 1      |
| Total         | 95     |

#### Joint Ventures

We own approximately a 33% non-controlling interest in a joint venture in Europe (“Euro JV”) that owns 11 hotels in two separate funds in seven countries. We also own non-controlling interests in an additional six joint ventures that own ten hotels.

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## 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, 2017.

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 June 30, 2018, and the results of our operations for the quarter and year-to-date periods ended June 30, 2018 and 2017, respectively, and cash flows for the year-to-date periods ended June 30, 2018 and 2017, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal variations.

Three of our partnerships are considered variable interest entities (VIEs) as the general partner maintains control over the decisions that most significantly impact the partnerships. This includes the operating partnership, Host L.P., which is consolidated by Host Inc., of which Host Inc. is the sole general partner and holds approximately 99% of its partnership interests; the consolidated partnership that owns the Houston Airport Marriott at George Bush

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

Intercontinental; and the unconsolidated partnership that owns the Philadelphia Marriott Downtown. Host Inc.'s sole significant asset is its investment in Host L.P. and, consequently, substantially all of Host Inc.'s assets and liabilities consist of the 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.

#### Reclassifications

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

#### New Accounting Standards

**Leases.** 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 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. The current standard requires a modified retrospective approach, with the option of restatement of the comparative periods presented in the year of adoption or applying the new standard only in the year of adoption with a cumulative-effect adjustment in the period of adoption. The primary impact of the new standard will be to the treatment of our 26 ground leases, which represent approximately 85% of our annual operating lease payments. We believe that 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 for the ground leases, although changes in discount rates, ground lease terms or other variables may have a significant effect on the calculation of this recorded amount. As noted above, we expect that the adoption of this standard will have minimal impact on our income statement.

**Business Combinations.** We adopted ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business on January 1, 2018. The standard adopts a two-step approach wherein, if substantially all of the fair value of the gross assets acquired is concentrated in a single (group of similar) identifiable asset(s), then the transaction will be considered an asset purchase. We anticipate that most of our future hotel purchases will be considered asset purchases as opposed to business combinations, although this determination will be made on a transaction-by-transaction basis. This standard was adopted on a prospective basis and, therefore, it did not affect the accounting for any of our previous transactions.

**Revenue Recognition.** We adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018. The 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 an entity expects in exchange. We also adopted ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which provides further guidance on accounting for the derecognition of and partial sales of a non-financial asset. This standard may allow for earlier gain recognition for certain sale transactions pursuant to which we have continuing involvement with the asset that was sold. We adopted these standards using a modified retrospective approach with a cumulative effect recognized in our equity balance on the date of adoption and no restatements of prior period amounts. When applying the new standard for the cumulative effect, we elected to apply the new standard only to contracts that were not considered completed as of the date of adoption.

**Transition adjustment.** As a result of the adoption of this standard on January 1, 2018, total liabilities were reduced by \$4.5 million, and total equity of Host Inc. stockholders and total Host L.P. capital increased by \$4.5 million. This



adjustment is related to a previously deferred gain on the sale of the Atlanta Marriott Marquis in 2013 that would have qualified for recognition under the new standard. Our balance sheet as of June 30, 2018 includes \$0.4 million retained as a contingent liability for potential environmental liabilities at the Atlanta Marriott Marquis; however, our potential exposure related to the guarantee can be up to \$5 million. Adoption did not have an effect on our income statement for the quarter and year-to-date ended June 30, 2018 and 2017.

Policy Disclosure. There has been no significant change to our method of revenue recognition for our primary operations; however, we have updated our accounting policy and disclosures for the revenue recognition standard. See Note 4 for this disclosure.

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

### 3. Earnings Per Common Share (Unit)

Basic earnings per common share (unit) is computed by dividing net income attributable to common stockholders (unitholders) by the weighted average number of shares of Host Inc. common stock or Host L.P. common units outstanding. Diluted earnings per common share (unit) is computed by dividing net income attributable to common stockholders (unitholders), as adjusted for potentially dilutive securities, by the weighted average number of shares of Host Inc. common stock or Host L.P. common units outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans or the common OP units distributed to Host Inc. to support such shares granted, and other non-controlling interests that have the option to convert their limited partnership interests to common OP units. No effect is shown for any securities that are anti-dilutive. We have 8 million common OP units which are convertible into 8.2 million common shares that are not included in Host Inc.'s calculation of earnings per share as their effect is not dilutive. The calculation of Host Inc. basic and diluted earnings per common share is shown below (in millions, except per share amounts):

|                                                  | Quarter ended<br>June 30, |       | Year-to-date<br>ended June 30, |       |
|--------------------------------------------------|---------------------------|-------|--------------------------------|-------|
|                                                  | 2018                      | 2017  | 2018                           | 2017  |
| Net income                                       | \$211                     | \$212 | \$467                          | \$373 |
| Less: Net income attributable to non-controlling |                           |       |                                |       |
| interests                                        | (2 )                      | (2 )  | (5 )                           | (5 )  |
| Net income attributable to Host Inc.             | \$209                     | \$210 | \$462                          | \$368 |
| Basic weighted average shares outstanding        | 739.7                     | 738.6 | 739.5                          | 738.3 |
| Assuming distribution of common shares granted   |                           |       |                                |       |
| under the comprehensive stock plans, less        |                           |       |                                |       |
| shares assumed purchased at market               | 0.5                       | 0.2   | 0.4                            | 0.2   |
| Diluted weighted average shares outstanding      | 740.2                     | 738.8 | 739.9                          | 738.5 |
| Basic earnings per common share                  | \$.28                     | \$.28 | \$.62                          | \$.50 |
| Diluted earnings per common share                | \$.28                     | \$.28 | \$.62                          | \$.50 |

The calculation of Host L.P. basic and diluted earnings per unit is shown below (in millions, except per unit amounts):

|                                                  | Quarter ended<br>June 30, |       | Year-to-date<br>ended June 30, |       |
|--------------------------------------------------|---------------------------|-------|--------------------------------|-------|
|                                                  | 2018                      | 2017  | 2018                           | 2017  |
| Net income                                       | \$211                     | \$212 | \$467                          | \$373 |
| Less: Net income attributable to non-controlling | —                         | —     | —                              | (1 )  |

interests

|                                      |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|
| Net income attributable to Host L.P. | \$211 | \$212 | \$467 | \$372 |
|--------------------------------------|-------|-------|-------|-------|

|                                          |       |       |       |       |
|------------------------------------------|-------|-------|-------|-------|
| Basic weighted average units outstanding | 732.2 | 731.5 | 732.1 | 731.2 |
|------------------------------------------|-------|-------|-------|-------|

Assuming distribution of common units to

support shares granted under the

comprehensive stock plans, less

|                                    |     |     |     |     |
|------------------------------------|-----|-----|-----|-----|
| shares assumed purchased at market | 0.5 | 0.1 | 0.4 | 0.2 |
|------------------------------------|-----|-----|-----|-----|

|                                            |       |       |       |       |
|--------------------------------------------|-------|-------|-------|-------|
| Diluted weighted average units outstanding | 732.7 | 731.6 | 732.5 | 731.4 |
|--------------------------------------------|-------|-------|-------|-------|

|                                |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|
| Basic earnings per common unit | \$.29 | \$.29 | \$.64 | \$.51 |
|--------------------------------|-------|-------|-------|-------|

|                                  |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| Diluted earnings per common unit | \$.29 | \$.29 | \$.64 | \$.51 |
|----------------------------------|-------|-------|-------|-------|

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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#### 4. Revenue

Substantially all of our operating results represent revenues and expenses generated by property-level operations. The majority of customers make payments when services are provided to them. Due to the short-term nature of our contracts and the almost concurrent receipt of payment, we have no significant performance obligations outstanding at quarter end. We collect sales, use, occupancy and similar taxes at our hotels, which we present on a net basis (excluded from revenues) on our statements of operations. Revenues are recognized when the performance obligations have been met, as follows:

##### Income statement

| line item                | Recognition method                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Rooms revenues           | Rooms revenues represent revenues from the occupancy of our hotel rooms and are driven by the occupancy and average daily rate charged. Rooms revenues do not include ancillary services or fees charged. The contracts for room stays with customers generally are very short term in duration and revenues are recognized over time during the course of the hotel stay.                                                                                                                                                                                                                                    |
| Food & beverage revenues | Food & beverage (“F&B”) revenues consist of revenue from group functions, which may include banquet revenue and audio-visual revenue, as well as outlet revenue from the restaurants and lounges at our properties. Revenues are recognized at a point in time as the services or products are provided. Our hotels may employ third parties to provide certain services at the property, for example, audio and visual services. We evaluate each of these contracts to determine if the hotel is the principal or the agent in the transaction and record the revenues as appropriate (i.e. gross vs. net). |
| Other revenues           | Other revenues consist of ancillary revenue at the property, including attrition and cancellation fees, golf courses, resort and destination fees, spas, entertainment and other guest services, as well as rental revenue; primarily consisting of leased retail outlets. Attrition and cancellation fees are recognized at a point in time for non-cancelable deposits when the customer provides notification of cancellation or is a no-show for the specified date, whichever comes first.                                                                                                               |

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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Disaggregation of Revenues. While we do not consider the following division by location to consist of reportable segments, we have disaggregated hotel revenues by market location. Our revenues also are presented by country in Note 10 – Geographic Information.

By Location. The following table presents hotel revenues for each of the geographic locations in our consolidated hotel portfolio (in millions):

| Location                                           | Quarter ended<br>June 30, |         | Year-to-date<br>ended June 30, |         |
|----------------------------------------------------|---------------------------|---------|--------------------------------|---------|
|                                                    | 2018                      | 2017    | 2018                           | 2017    |
| New York                                           | \$206                     | \$211   | \$367                          | \$361   |
| San Diego                                          | 133                       | 126     | 266                            | 263     |
| San Francisco/San Jose                             | 135                       | 103     | 242                            | 207     |
| Washington, D.C. (Central Business District "CBD") | 108                       | 105     | 181                            | 194     |
| Florida Gulf Coast                                 | 81                        | 67      | 179                            | 154     |
| Maui/Oahu                                          | 96                        | 71      | 177                            | 145     |
| Phoenix                                            | 77                        | 62      | 174                            | 160     |
| Boston                                             | 91                        | 94      | 145                            | 148     |
| Orlando                                            | 56                        | 53      | 126                            | 117     |
| Los Angeles                                        | 48                        | 50      | 95                             | 88      |
| Chicago                                            | 57                        | 57      | 87                             | 84      |
| Atlanta                                            | 40                        | 42      | 82                             | 85      |
| Northern Virginia                                  | 45                        | 56      | 81                             | 100     |
| Houston                                            | 31                        | 30      | 63                             | 63      |
| Seattle                                            | 36                        | 35      | 61                             | 61      |
| San Antonio                                        | 30                        | 27      | 60                             | 60      |
| Orange County                                      | 30                        | 30      | 59                             | 61      |
| New Orleans                                        | 28                        | 26      | 56                             | 54      |
| Jacksonville                                       | 30                        | 29      | 53                             | 51      |
| Philadelphia                                       | 24                        | 23      | 43                             | 40      |
| Denver                                             | 25                        | 24      | 43                             | 42      |
| Miami                                              | 13                        | 13      | 32                             | 31      |
| Other                                              | 67                        | 72      | 135                            | 153     |
| Domestic                                           | 1,487                     | 1,406   | 2,807                          | 2,722   |
| International                                      | 31                        | 35      | 57                             | 67      |
| Total                                              | \$1,518                   | \$1,441 | \$2,864                        | \$2,789 |

## 5. Property and Equipment

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

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|                                                | June 30,<br>2018 | December 31,<br>2017 |
|------------------------------------------------|------------------|----------------------|
| Land and land improvements                     | \$2,120          | \$ 1,934             |
| Buildings and leasehold improvements           | 14,262           | 13,529               |
| Furniture and equipment                        | 2,412            | 2,357                |
| Construction in progress                       | 112              | 106                  |
|                                                | 18,906           | 17,926               |
| Less accumulated depreciation and amortization | (8,529 )         | (8,234 )             |
|                                                | \$10,377         | \$ 9,692             |

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HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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6. Debt

Credit Facility. During the second quarter, we repaid CAD\$33 million (\$25 million) under the revolver portion of the credit facility. As of June 30, 2018, we had \$551 million of available capacity under the revolver portion of our credit facility. Subsequent to quarter end, we repaid an additional \$150 million under the revolver portion of the credit facility.

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<br>of<br>Host<br>Inc. | Non-redeemable,<br>non-controlling<br>interests | Total<br>equity | Redeemable,<br>non-controlling<br>interests |
|----------------------------------------------------------------|------------------------------|-------------------------------------------------|-----------------|---------------------------------------------|
| Balance, December 31, 2017                                     | \$6,973                      | \$ 29                                           | \$7,002         | \$ 167                                      |
| Net income                                                     | 462                          | —                                               | 462             | 5                                           |
| Issuance of common stock for comprehensive<br>stock plans, net | 6                            | —                                               | 6               | —                                           |
| Dividends declared on common stock                             | (296 )                       | —                                               | (296 )          | —                                           |
| Distributions to non-controlling interests                     | —                            | (1 )                                            | (1 )            | (3 )                                        |
| Changes in ownership and other                                 | (4 )                         | —                                               | (4 )            | 4                                           |
| Other comprehensive loss                                       | (8 )                         | —                                               | (8 )            | —                                           |
| Cumulative effect of accounting change                         | 5                            | —                                               | 5               | —                                           |
| Balance, June 30, 2018                                         | \$7,138                      | \$ 28                                           | \$7,166         | \$ 173                                      |

Capital of Host L.P.

As of June 30, 2018, 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 common 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 common OP unit.

In exchange for any shares issued by Host Inc., Host L.P. will issue common 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.



HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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Capital of Host L.P. is allocated between controlling and non-controlling interests as follows (in millions):

|                                              | Capital<br>of<br>Host<br>L.P. | Non-controlling<br>interests | Total<br>capital | Limited<br>partnership<br>interests of<br>third parties |
|----------------------------------------------|-------------------------------|------------------------------|------------------|---------------------------------------------------------|
| Balance, December 31, 2017                   | \$6,973                       | \$ 29                        | \$7,002          | \$ 167                                                  |
| Net income                                   | 462                           | —                            | 462              | 5                                                       |
| Issuance of common OP units to Host Inc. for |                               |                              |                  |                                                         |
| comprehensive stock plans, net               | 6                             | —                            | 6                | —                                                       |
| Distributions declared on common OP units    | (296 )                        | —                            | (296 )           | (3 )                                                    |
| Distributions to non-controlling interests   | —                             | (1 )                         | (1 )             | —                                                       |
| Changes in ownership and other               | (4 )                          | —                            | (4 )             | 4                                                       |
| Other comprehensive loss                     | (8 )                          | —                            | (8 )             | —                                                       |
| Cumulative effect of accounting change       | 5                             | —                            | 5                | —                                                       |
| Balance, June 30, 2018                       | \$7,138                       | \$ 28                        | \$7,166          | \$ 173                                                  |

#### Dividends/Distributions

On June 14, 2018, 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 July 16, 2018 to stockholders of record as of June 29, 2018. Accordingly, Host L.P. made a distribution of \$0.2042988 per unit on its common OP units based on the current conversion ratio.

#### 8. Dispositions

On May 9, 2018, we sold the W New York on Lexington Avenue for \$190 million. We did not record any material gain or loss in connection with the sale.

#### 9. Fair Value Measurements

##### Impairment

During the second quarter, we recorded an impairment loss of \$13 million, which is included in depreciation and amortization expense, related to the W New York – Union Square hotel based on the expected sale price of the property, which sale price is considered an unobservable input (Level 3) in the GAAP fair value hierarchy. The fair value of the property on June 30, 2018 was \$162 million. The property was classified as held-for-sale as of June 30, 2018.

## 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 our secured debt and our credit facility are determined based on expected future payments discounted at risk-adjusted rates. Our 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):

|                              | June 30, 2018 |            | December 31, 2017 |            |
|------------------------------|---------------|------------|-------------------|------------|
|                              | Carrying      |            | Carrying          |            |
|                              | Amount        | Fair Value | Amount            | Fair Value |
| <b>Financial liabilities</b> |               |            |                   |            |
| Senior notes (Level 1)       | \$2,780       | \$ 2,810   | \$2,778           | \$ 2,932   |
| Credit facility (Level 2)    | 1,442         | 1,449      | 1,170             | 1,178      |

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HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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### 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 reportable segment: hotel ownership. Our consolidated foreign operations consist of hotels in three countries as of June 30, 2018. There were no intersegment sales during the periods presented.

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

|               | Total Revenues<br>Quarter ended |         | Total Revenues<br>Year-to-date |         | Property and<br>Equipment, net |                      |
|---------------|---------------------------------|---------|--------------------------------|---------|--------------------------------|----------------------|
|               | June 30,<br>2018                | 2017    | ended June 30,<br>2018         | 2017    | June 30,<br>2018               | December 31,<br>2017 |
| United States | \$1,487                         | \$1,406 | \$2,807                        | \$2,722 | \$10,249                       | \$ 9,548             |
| Australia     | —                               | 8       | —                              | 16      | —                              | —                    |
| Brazil        | 5                               | 5       | 10                             | 11      | 49                             | 59                   |
| Canada        | 19                              | 15      | 33                             | 26      | 66                             | 71                   |
| Mexico        | 7                               | 7       | 14                             | 14      | 13                             | 14                   |
| Total         | \$1,518                         | \$1,441 | \$2,864                        | \$2,789 | \$10,377                       | \$ 9,692             |

### 11. Non-controlling Interests

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 for 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:

|                                                       | June 30,<br>2018 | December 31,<br>2017 |
|-------------------------------------------------------|------------------|----------------------|
| Common OP units outstanding (millions)                | 8.0              | 8.2                  |
| Market price per Host Inc. common share               | \$21.07          | \$ 19.85             |
| Shares issuable upon conversion of one common OP unit | 1.021494         | 1.021494             |
| Redemption value (millions)                           | \$173            | \$ 167               |
| Historical cost (millions)                            | 80               | 80                   |
| Book value (millions) <sup>(1)</sup>                  | 173              | 167                  |

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

Other Consolidated Partnerships. We consolidate three majority-owned partnerships that have third-party, non-controlling partners. The third-party partnership interests are included in non-controlling interests — other consolidated partnerships on the balance sheets and totaled \$28 million and \$29 million as of June 30, 2018 and December 31, 2017, respectively.

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

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 recorded minimal accruals as of June 30, 2018 related to such claims. We have estimated that, in the aggregate, our losses related to these proceedings would not be material. We are not aware of any 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, consumer confidence and the value of the U.S. dollar, and (ii) factors that may shape public perception of travel to a particular location 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 United States, such as the pace of economic growth 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;
- risks that U.S. immigration policies and travel ban will suppress international travel to the United States generally;
- volatility in global financial and credit markets, and the impact of budget deficits and potential 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 operating or 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 that a default 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;
- the ability of our hotels to compete effectively against other lodging businesses in the highly competitive markets in which we operate in terms of 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;

• changes in the desirability of the geographic regions of the hotels in our portfolio or in the travel patterns of hotel customers;

• the ability of third-party internet and other travel intermediaries to attract and retain customers;

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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 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 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, 2017 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 statements of operations and significant operating statistics (in millions, except per share and hotel statistics):

#### Historical Income Statement Data:

|                                               | Quarter ended<br>June 30, |         |         | Year-to-date<br>ended June 30, |         |        |
|-----------------------------------------------|---------------------------|---------|---------|--------------------------------|---------|--------|
|                                               | 2018                      | 2017    | Change  | 2018                           | 2017    | Change |
| Total revenues                                | \$1,518                   | \$1,441 | 5.3 %   | \$2,864                        | \$2,789 | 2.7 %  |
| Net income                                    | 211                       | 212     | (0.5 )% | 467                            | 373     | 25.2 % |
| Operating profit                              | 263                       | 244     | 7.8 %   | 434                            | 415     | 4.6 %  |
| Operating profit margin under GAAP            | 17.3 %                    | 16.9 %  | 40 bps  | 15.2 %                         | 14.9 %  | 30 bps |
| Adjusted EBITDAre <sup>(1)</sup>              | \$476                     | \$446   | 6.7 %   | \$846                          | \$816   | 3.7 %  |
| Diluted earnings per common share             | 0.28                      | 0.28    | —       | 0.62                           | 0.50    | 24.0 % |
| NAREIT FFO per diluted share <sup>(1)</sup>   | 0.54                      | 0.49    | 10.2 %  | 0.97                           | 0.93    | 4.3 %  |
| Adjusted FFO per diluted share <sup>(1)</sup> | 0.54                      | 0.49    | 10.2 %  | 0.97                           | 0.94    | 3.2 %  |

#### Comparable Hotel Data:

|                                                           | 2018 Comparable Hotels (2)<br>Quarter ended<br>June 30, |         |        | Year-to-date<br>ended June 30, |         |        |
|-----------------------------------------------------------|---------------------------------------------------------|---------|--------|--------------------------------|---------|--------|
|                                                           | 2018                                                    | 2017    | Change | 2018                           | 2017    | Change |
| Comparable hotel revenues <sup>(1)</sup>                  | \$1,355                                                 | \$1,306 | 3.7 %  | \$2,561                        | \$2,496 | 2.6 %  |
| Comparable hotel EBITDA <sup>(1)</sup>                    | 437                                                     | 410     | 6.7 %  | 768                            | 730     | 5.2 %  |
| Comparable hotel EBITDA margin <sup>(1)</sup>             | 32.3 %                                                  | 31.4 %  | 90 bps | 30.0 %                         | 29.25 % | 75 bps |
| Change in comparable hotel RevPAR - Constant US\$         | 2.8 %                                                   |         |        | 2.1 %                          |         |        |
| Change in comparable hotel RevPAR - Nominal US\$          | 2.7 %                                                   |         |        | 2.1 %                          |         |        |
| Change in comparable domestic RevPAR                      | 2.5 %                                                   |         |        | 1.9 %                          |         |        |
| Change in comparable international RevPAR - Constant US\$ | 14.0 %                                                  |         |        | 11.7 %                         |         |        |

(1) Adjusted EBITDAre, 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 2018 and 2017 are based on 88 hotels as of June 30, 2018.

## Revenue

Total revenues improved \$77 million, or 5.3%, for the second quarter and \$75 million, or 2.7%, year-to-date, driven by improvements in all three revenue categories. Comparable revenues increased \$49 million, or 3.7% for the second quarter and \$65 million, or 2.6%, year-to-date. Continued high occupancy and a 2.2% increase in room rates drove comparable revenue per available room (“RevPAR”) growth of 2.8% for the second quarter, on a constant US\$ basis. Year-to-date, comparable RevPAR on a constant US\$ basis improved 2.1% as a result of an increase in occupancy of 110 basis points and a 0.7% increase in average room rate. For the second quarter, a significant increase in banquet and A/V sales drove comparable food and beverage revenues; however, this growth was positively affected by the shift of the Easter holiday from the second quarter of 2017 to the first quarter in 2018. An increase in ancillary revenues led to comparable other revenue growth for both the second quarter and year-to-date. Additionally, the acquisition of three hotels in March 2018, partially offset by the sale of six hotels in 2017 and 2018, resulted in an increase in total revenues of \$15 million, or 1.0%, for the second quarter, with no material change year-to-date (see “Statement of Operations Results and Trends”).

The strongest markets for the quarter were New Orleans and San Antonio, which had RevPAR increases of 11.8% and 9.9%, respectively. The improvements primarily were the result of an increase in corporate group room nights and an increase in the transient rate in New Orleans and strong corporate and government volume in San Antonio. Our San Francisco/San Jose and

Maui/Oahu properties also outperformed the portfolio, with RevPAR increases of 8.6% and 6.2%, respectively, due to strong increases in group and transient growth in San Francisco/San Jose and strong transient rate gains in Maui/Oahu. RevPAR at our Houston properties improved 6.7% due to strong retail and discount occupancy, which led to an increase in transient revenues of 8.9%. These strong performances were offset by RevPAR declines at our Boston and Atlanta properties of 2.9% and 2.7%, respectively, due to a decline in city-wide events in both markets. Washington D.C. (Central Business District “CBD”) experienced RevPAR growth of 2.0%, as strong growth in average rate offset the decline in transient business. New York experienced RevPAR growth of 1.1%, as improvements in transient average rate and demand offset the decline in group room nights.

On a constant US\$ basis, RevPAR at our comparable international properties improved 14.0% for the second quarter and 11.7% year-to-date. The increase was due to strong occupancy growth at our Canadian properties and the JW Marriott Hotel Mexico City driven by stronger than expected transient demand.

### Operating profit

Operating profit margin (calculated based on GAAP operating profit as a percentage of GAAP revenues) increased 40 basis points, to 17.3%, for the second quarter and 30 basis points, to 15.2%, year-to-date. These operating profit margins are affected significantly by several items, including dispositions, depreciation and corporate expenses. Our comparable hotel EBITDA margins, which exclude these items, increased 90 basis points, to 32.3%, for the second quarter and 75 basis points, to 30.0%, year-to-date. For the quarter, the margin improvement was driven primarily by rate growth, a positive shift in food and beverage operations to more profitable banquet and audio/visual business, and growth in ancillary revenues. Year-to-date, margin improvement was driven by continued improvements in operating efficiencies and higher ancillary revenues. Operating results also benefited from property tax rebates, which improved comparable margins by 40 basis points for both the quarter and year-to-date.

### Net income, Adjusted EBITDAre and Adjusted FFO per Diluted Share

Net income declined \$1 million for the quarter and increased \$94 million year-to-date. For the quarter, the overall improvement in operating results were offset by a decrease in gain on sale of assets. The increase year-to-date was due primarily to an increase in gain on sale of assets along with an improvement in operations. Adjusted EBITDAre, which excludes gain on sale of assets, increased \$30 million for both the quarter and year-to-date due to the increase in operations. These changes led to an increase in diluted earnings per share of \$0.12, or 24.0%, year-to-date, while results for the quarter remained flat. Adjusted FFO per diluted share increased \$.05, or 10.2%, for the quarter due to the increase in operations and a decrease in tax expense. Year-to-date, Adjusted FFO per diluted share increased \$0.03, or 3.2%, primarily reflecting improved operations, partially offset by an increase in interest expense.

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

We are optimistic about the overall lodging operating environment, as strong U.S. economic fundamentals, including high consumer confidence and historically low-level of unemployment, have resulted in increases in U.S. GDP and strengthening corporate and leisure travel. In addition, the impact of the Tax Cuts and Jobs Act and lower regulatory burdens have resulted in increased corporate profits and business investment during the year, which historically have correlated to strengthening business transient demand, a key demand driver for our portfolio.

The rate of industry-wide supply growth is expected to accelerate slightly from prior years although the increases vary by market. We anticipate that markets such as Maui/Oahu, Orlando, and San Diego will continue to benefit from strong leisure demand and low supply growth. Markets such as New York and Los Angeles have experienced above-average supply growth, making it more challenging for our operators to grow RevPAR. On a portfolio wide basis, the increase in market supply and occupancies, which are currently at or near record high levels, are expected to limit RevPAR growth to increases in average rate. We believe that favorable economic fundamentals will support continued strengthening demand and allow properties to shift mix toward more profitable sources of business, driving average rate and overall RevPAR growth for our portfolio for the remainder of the year.

Based on these trends, we estimate that comparable RevPAR growth for the full year 2018 will be between 1.75% and 2.5% on a constant US\$ basis. However, 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 U.S. economy, changes in travel patterns, increased market volatility, escalating trade tensions, anticipated increases in interest rates and international economic and political instability.

## Strategic Initiatives

**Dispositions.** During the quarter, we sold the W New York on Lexington Avenue for \$190 million. We also reached an agreement to sell the W New York – Union Square for \$171 million, including \$3 million for the FF&E replacement retained by us. The property was classified as held-for-sale as of June 30, 2018, and the sale is expected to close in the third quarter, subject to customary closing conditions.

**Financing transactions.** During the quarter, we repaid CAD33 million (\$25 million) under the revolver portion of our credit facility. As of June 30, 2018, we had \$551 million of available capacity remaining under the revolver portion of our credit facility. Subsequent to quarter end, we repaid an additional \$150 million under the revolver portion of the credit facility using available cash, increasing the available capacity to \$701 million.

**Capital Projects.** For full year 2018, we expect total capital expenditures of \$475 million to \$550 million, closer to our historical average spend as compared to 2017. This total amount consists of return on investment (“ROI”) projects of approximately \$185 million to \$220 million and renewal and replacement expenditures of \$290 million to \$330 million.

We look to enhance asset value through ROI projects that are designed to take advantage of changing market conditions and the favorable locations of our properties, while seeking to increase profitability and enhance customer satisfaction. These projects are designed to improve the positioning of our hotels within their markets and competitive set as well as to incorporate elements of sustainable design and replace aging equipment and systems with more efficient technology. We also maintain the value of our properties through regular renewal and replacement capital expenditures that are designed to improve the quality and competitiveness of our hotels.

During the first half of 2018, we spent approximately \$58 million on ROI capital projects and \$143 million on renewal and replacement projects. Significant projects completed during the quarter included the renovation of all 661 rooms at the Swissotel Chicago, the renovation of almost 18,000 square feet of public space at The Westin Seattle, and the completion of the all-new tennis and activity center at The Phoenician, A Luxury Collection Resort.

## Results of Operations

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

|                                                         | Quarter ended<br>June 30, |         |         |   | Year-to-date<br>ended June 30, |         |        |   |
|---------------------------------------------------------|---------------------------|---------|---------|---|--------------------------------|---------|--------|---|
|                                                         | 2018                      | 2017    | Change  | % | 2018                           | 2017    | Change | % |
| Total revenues                                          | \$1,518                   | \$1,441 | 5.3     | % | \$2,864                        | \$2,789 | 2.7    | % |
| Operating costs and expenses:                           |                           |         |         |   |                                |         |        |   |
| Property-level costs <sup>(1)</sup>                     | 1,225                     | 1,173   | 4.4     |   | 2,372                          | 2,324   | 2.1    |   |
| Corporate and other expenses                            | 30                        | 26      | 15.4    |   | 58                             | 55      | 5.5    |   |
| Gain on insurance and business interruption settlements | —                         | 2       | N/M     |   | —                              | 5       | N/M    |   |
| Operating profit                                        | 263                       | 244     | 7.8     |   | 434                            | 415     | 4.6    |   |
| Interest expense                                        | 45                        | 43      | 4.7     |   | 89                             | 82      | 8.5    |   |
| Gain on sale of assets                                  | —                         | 29      | N/M     |   | 120                            | 46      | 160.9  |   |
| Provision for income taxes                              | 17                        | 27      | (37.0 ) |   | 21                             | 21      | —      |   |
| Host Inc.:                                              |                           |         |         |   |                                |         |        |   |

Net income attributable to non-

|                                      |     |     |        |     |     |      |
|--------------------------------------|-----|-----|--------|-----|-----|------|
| controlling interests                | 2   | 2   | —      | 5   | 5   | —    |
| Net income attributable to Host Inc. | 209 | 210 | (0.5 ) | 462 | 368 | 25.5 |

Host L.P.:

Net income attributable to non-

|                                      |     |     |        |     |     |      |
|--------------------------------------|-----|-----|--------|-----|-----|------|
| controlling interests                | —   | —   | —      | —   | 1   | N/M  |
| Net income attributable to Host L.P. | 211 | 212 | (0.5 ) | 467 | 372 | 25.5 |

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

N/M=Not meaningful.

## Statement of Operations Results and Trends

For the second quarter and year-to-date 2018, the results of hotels acquired or sold during the comparable periods impacted our year-over-year comparisons. Comparisons of our operations were affected by the disposition of two hotels in 2018 and four hotels in 2017. These dispositions were offset by the acquisition of three hotels in March 2018: Andaz Maui at Wailea Resort, Grand Hyatt San Francisco, and Hyatt Regency Coconut Point Resort and Spa, and two hotels during the first quarter of 2017: the W Hollywood acquired in March 2017 and The Don CeSar and Beach House Suites complex acquired in February 2017. The table below presents the net (reduction)/increase in revenues and earnings due to the results of hotels acquired or sold during the comparable periods, collectively the “Property Transactions” (in millions):

|                                                  | Quarter ended<br>June 30,<br>2018 |      |        | Year-to-date<br>ended June<br>30,<br>2018 |       |        |
|--------------------------------------------------|-----------------------------------|------|--------|-------------------------------------------|-------|--------|
|                                                  | 2018                              | 2017 | Change | 2018                                      | 2017  | Change |
| Revenues:                                        |                                   |      |        |                                           |       |        |
| Acquisitions                                     | \$84                              | \$29 | \$55   | \$114                                     | \$41  | \$73   |
| Dispositions                                     | 8                                 | 48   | (40)   | 23                                        | 95    | (72)   |
| Total revenues                                   | \$92                              | \$77 | \$15   | \$137                                     | \$136 | \$1    |
| Net income (excluding gain on sale, net of tax): |                                   |      |        |                                           |       |        |
| Acquisitions                                     | \$13                              | \$6  | \$7    | \$19                                      | \$10  | \$9    |
| Dispositions                                     | —                                 | 6    | (6)    | (11)                                      | 5     | (16)   |
| Net income (excluding gain on sale, net of tax): | \$13                              | \$12 | \$1    | \$8                                       | \$15  | \$(7)  |

## Hotel Sales Overview

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

|                   | Quarter ended<br>June 30, |         |        | Year-to-date<br>ended June 30, |         |        |
|-------------------|---------------------------|---------|--------|--------------------------------|---------|--------|
|                   | 2018                      | 2017    | Change | 2018                           | 2017    | Change |
| Revenues:         |                           |         |        |                                |         |        |
| Rooms             | \$973                     | \$940   | 3.5 %  | \$1,817                        | \$1,783 | 1.9 %  |
| Food and beverage | 449                       | 416     | 7.9    | 862                            | 838     | 2.9    |
| Other             | 96                        | 85      | 12.9   | 185                            | 168     | 10.1   |
| Total revenues    | \$1,518                   | \$1,441 | 5.3    | \$2,864                        | \$2,789 | 2.7    |

Rooms. Total rooms revenues increased \$33 million, or 3.5%, and \$34 million, or 1.9%, for the quarter and year-to-date, respectively. The improvement reflects the increases at our comparable hotels of \$24 million, or 2.8%, for the quarter and \$34 million, or 2.1%, year-to-date, driven by increases in both occupancy and rate for each period. The net effect of our Property Transactions increased rooms revenue by \$6 million, or 0.7%, for the quarter and decreased rooms revenues by \$6 million, or 0.3%, year-to-date.

Food and beverage. Total food and beverage (“F&B”) revenues increased \$33 million, or 7.9%, for the quarter and \$24 million, or 2.9%, for year-to-date. Comparable F&B revenues increased \$18 million, or 4.8%, for the quarter, reflecting a 6.6% increase in banquet and audio-visual revenues associated with the shift in the Easter holiday. Year-to-date, comparable F&B revenues increased \$15 million, or 2.1%, reflecting a 2.2% increase in banquet and audio-visual revenues, coupled with a 1.8% increase in outlet revenues. The net effect of our Property Transactions increased F&B revenues \$6 million, or 1.5%, and \$3 million, or 0.4%, for the quarter and year-to-date, respectively.

Other revenues. Total other revenues increased \$11 million, or 12.9%, for the quarter and \$17 million, or 10.1%, year-to-date. At our comparable hotels, other revenues increased \$7 million, or 9.8%, for the quarter and \$16 million, or 11.3%, year-to-date primarily due to an increase in ancillary revenues in both periods. The growth rate for ancillary revenues is expected to moderate for the remainder of the year. The net effect of our Property Transactions increased other revenues \$3 million, or 3.8%, and \$4 million, or 2.4%, for the quarter and year-to-date, respectively.



## 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<br>June 30, |         |        | Year-to-date<br>ended June 30, |         |        |  |
|------------------------|---------------------------|---------|--------|--------------------------------|---------|--------|--|
|                        | 2018                      | 2017    | Change | 2018                           | 2017    | Change |  |
| Expenses:              |                           |         |        |                                |         |        |  |
| Rooms                  | \$238                     | \$230   | 3.5 %  | \$462                          | \$449   | 2.9 %  |  |
| Food and beverage      | 290                       | 275     | 5.5    | 568                            | 552     | 2.9    |  |
| Other departmental and |                           |         |        |                                |         |        |  |
| support expenses       | 336                       | 324     | 3.7    | 651                            | 643     | 1.2    |  |
| Management fees        | 73                        | 69      | 5.8    | 127                            | 125     | 1.6    |  |
| Other property-level   |                           |         |        |                                |         |        |  |
| expenses               | 99                        | 97      | 2.1    | 197                            | 197     | —      |  |
| Depreciation and       |                           |         |        |                                |         |        |  |
| amortization           | 189                       | 178     | 6.2    | 367                            | 358     | 2.5    |  |
| Total property-level   |                           |         |        |                                |         |        |  |
| operating expenses     | \$1,225                   | \$1,173 | 4.4    | \$2,372                        | \$2,324 | 2.1    |  |

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 and expenses will differ. Our wages and benefits account for approximately 57% of the operating expenses at our hotels (excluding depreciation). For the second quarter and year-to-date 2018, wages and benefit expenses increased approximately 3% at our comparable hotels due to the ongoing impacts of general wage and labor pressure. 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 increased \$8 million, or 3.5%, for the second quarter and \$13 million, or 2.9%, year-to-date. Our comparable hotels increase of \$6 million, or 2.9%, for the quarter and \$13 million, or 3.1%, year-to-date, reflects increases in wages and benefits for both periods. The net effect of our Property Transactions increased rooms expenses by \$2 million, or 0.8%, for the quarter and decreased rooms expense by \$1 million, or 0.2%, year-to-date.

Food and beverage. F&B expenses increased \$15 million, or 5.5%, for the quarter and \$16 million, or 2.9%, year-to-date. For our comparable hotels, F&B expenses increased \$8 million, or 3.3%, for the quarter and \$9 million, or 1.9%, year-to-date, reflecting a beneficial shift to banquet and audio-visual revenues in the second quarter and well-controlled food costs in relation to increased sales for both the second quarter and year-to-date. The net effect of our Property Transactions increased F&B expenses by \$5 million, or 2.0%, and \$4 million, or 0.7%, for the quarter and year-to-date, respectively.

Other departmental and support expenses. Other departmental and support expenses increased \$12 million, or 3.7%, for the second quarter and \$8 million, or 1.2%, year-to-date. On a comparable hotel basis, other departmental and support expenses increased \$5 million, or 1.8%, and \$6 million, or 1.0%, for the quarter and year-to-date, respectively, primarily due to increases in general and administrative and sales and marketing costs for both periods. The net effect of our Property Transactions increased other departmental and support expenses by \$6 million, or 1.7%, for the quarter and \$1 million, or 0.2%, year-to-date.

Management fees. Base management fees, which generally are calculated as a percentage of total revenues, increased \$2 million, or 4.4%, in the second quarter and \$1 million, or 1.2%, year-to-date. On a comparable hotel basis, base management fees increased \$1 million, or 3.1% , for the quarter and \$1 million, or 1.6% , year to date, reflecting revenue improvements. Incentive management fees, which generally are based on the amount of operating profit at each property after we receive a priority return on our investment, increased \$2 million, or 8.0%, for the quarter and \$1 million or 2.2%, for year-to-date. On a comparable hotel basis, incentive management fees increased \$4 million, or 14.8%, for the quarter and \$3 million, or 6.3%, year-to-date, reflecting improved hotel operations.

Other property-level expenses. These expenses generally do not vary significantly based on occupancy and include expenses such as property taxes and insurance. Other property level expenses increased \$2 million, or 2.1%, for the quarter and were flat year-to-date. Other property-level expenses at our comparable hotels decreased \$3 million, or 3.7%, for the quarter and \$5 million, or 2.7%, year-to-date, primarily due to a tax abatement received at the New York Marriott Marquis.

Depreciation and amortization. Depreciation and amortization expense increased \$11 million, or 6.2%, for the quarter and \$9 million, or 2.5% year-to-date. The increase is due to impairment expense of \$13 million at one property in the second quarter and \$8 million at one property in the first quarter, partially offset by the net effect of our Property Transactions.

#### Other Income and Expense

Corporate and other expenses. The following table details our corporate and other expenses for the quarter and year-to-date (in millions):

|                                                | Quarter ended June 30, |      | Year-to-date ended June 30, |      |
|------------------------------------------------|------------------------|------|-----------------------------|------|
|                                                | 2018                   | 2017 | 2018                        | 2017 |
| General and administrative costs               | \$26                   | \$24 | \$51                        | \$49 |
| Non-cash stock-based compensation expense      | 4                      | 2    | 7                           | 5    |
| Litigation accruals and acquisition costs, net | —                      | —    | —                           | 1    |
| Total                                          | \$30                   | \$26 | \$58                        | \$55 |

Interest expense. Interest expense for the quarter and year-to-date increased due to additional amounts outstanding under our credit facility and an increase in interest rates on our floating rate debt. Interest expense year-to-date also included a full period of interest expense on the Series G Senior Notes that were issued in March of 2017. The following table details our interest expense for the quarter and year-to-date (in millions):

|                                      | Quarter ended June 30, |      | Year-to-date ended June 30, |      |
|--------------------------------------|------------------------|------|-----------------------------|------|
|                                      | 2018                   | 2017 | 2018                        | 2017 |
| Cash interest expense <sup>(1)</sup> | \$44                   | \$41 | \$86                        | \$79 |
| Non-cash interest expense            | 1                      | 2    | 3                           | 3    |
| Total interest expense               | \$45                   | \$43 | \$89                        | \$82 |

(1) Including the change in accrued interest, total cash interest paid was \$83 million and \$72 million for year-to-date 2018 and 2017, respectively.

Gain on sale of assets. Year-to-date, we recognized a gain on sale of assets of \$120 million related to the sale of the Key Bridge Marriott in the first quarter. We recognized a gain on sale of assets of \$29 million and \$46 million during the second quarter and year-to-date 2017, respectively, primarily due to the sale of the JW Marriott Desert Springs Resort & Spa in the first quarter and the Sheraton Memphis Downtown in the second quarter of 2017.

Provision for income taxes. We lease substantially all 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, with regard to which we record an income tax provision or benefit. The income tax provision recorded in the second quarter and year-to-date 2018 predominately is due to the profitability of hotel operations retained by the TRS.

#### Comparable Hotel RevPAR 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 hotels acquired or sold, that incurred significant property damage or business interruption, or have undergone large scale capital projects during these periods. As of June 30, 2018, 88 of our 95 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 RevPAR results by geographic location and mix of business (i.e. transient, group, or contract).

# Comparable Hotel Sales by Location

The following tables set forth performance information for our comparable hotels by geographic location as of June 30, 2018 and 2017, respectively:

## Comparable Hotels by Location in Constant US\$ (by year-to-date RevPAR)

| Location               | As of June 30, 2018 |              | Quarter ended June 30, 2018 |                      |          | Quarter ended June 30, 2017 |                      |          | Percent          |   |
|------------------------|---------------------|--------------|-----------------------------|----------------------|----------|-----------------------------|----------------------|----------|------------------|---|
|                        | No. of Properties   | No. of Rooms | Average Room Rate           | Occupancy Percentage | RevPAR   | Average Room Rate           | Occupancy Percentage | RevPAR   | Change in RevPAR | % |
| Maui/Oahu              | 3                   | 1,682        | \$342.49                    | 91.7                 | \$313.94 | \$328.85                    | 89.9                 | \$295.61 | 6.2              | % |
| Jacksonville           | 1                   | 446          | 400.02                      | 84.6                 | 338.47   | 384.03                      | 85.0                 | 326.50   | 3.7              |   |
| New York               | 5                   | 5,303        | 308.92                      | 90.8                 | 280.65   | 301.09                      | 92.2                 | 277.51   | 1.1              |   |
| Florida Gulf Coast     | 2                   | 593          | 227.09                      | 71.9                 | 163.32   | 211.48                      | 74.5                 | 157.63   | 3.6              |   |
| Washington, D.C. (CBD) | 5                   | 3,238        | 287.52                      | 89.7                 | 257.90   | 279.26                      | 90.5                 | 252.81   | 2.0              |   |
| San Francisco/San Jose | 6                   | 3,853        | 250.86                      | 88.9                 | 222.97   | 236.73                      | 86.8                 | 205.40   | 8.6              |   |
| Phoenix                | 4                   | 1,518        | 201.89                      | 76.1                 | 153.68   | 199.70                      | 75.6                 | 150.89   | 1.8              |   |
| San Diego              | 4                   | 4,341        | 232.31                      | 84.7                 | 196.69   | 227.07                      | 85.9                 | 195.12   | 0.8              |   |
| Los Angeles            | 3                   | 1,421        | 212.68                      | 90.1                 | 191.67   | 219.01                      | 89.5                 | 195.96   | (2.2)            | ) |
| Seattle                | 2                   | 1,315        | 253.60                      | 88.6                 | 224.66   | 251.37                      | 89.7                 | 225.39   | (0.3)            | ) |
| Boston                 | 4                   | 3,185        | 262.60                      | 89.1                 | 233.87   | 267.82                      | 89.9                 | 240.86   | (2.9)            | ) |
| Philadelphia           | 2                   | 810          | 223.69                      | 89.0                 | 199.05   | 220.07                      | 85.7                 | 188.64   | 5.5              |   |
| New Orleans            | 1                   | 1,333        | 196.05                      | 85.4                 | 167.43   | 182.56                      | 82.0                 | 149.70   | 11.8             |   |
| Orlando                | 1                   | 2,004        | 186.83                      | 75.0                 | 140.15   | 174.70                      | 74.2                 | 129.65   | 8.1              |   |
| Orange County          | 4                   | 1,429        | 188.33                      | 81.4                 | 153.35   | 186.33                      | 80.9                 | 150.68   | 1.8              |   |
| Miami                  | 2                   | 843          | 143.52                      | 80.9                 | 116.09   | 143.31                      | 82.2                 | 117.86   | (1.5)            | ) |
| Atlanta                | 5                   | 1,936        | 183.48                      | 80.1                 | 146.93   | 189.62                      | 79.7                 | 151.06   | (2.7)            | ) |
| Chicago                | 6                   | 2,392        | 234.71                      | 83.9                 | 197.01   | 224.95                      | 86.6                 | 194.82   | 1.1              |   |
| Northern Virginia      | 5                   | 1,919        | 194.77                      | 83.4                 | 162.39   | 192.99                      | 81.5                 | 157.22   | 3.3              |   |
| San Antonio            | 2                   | 1,513        | 193.23                      | 73.4                 | 141.89   | 179.03                      | 72.1                 | 129.15   | 9.9              |   |
| Houston                | 4                   | 1,716        | 178.28                      | 74.9                 | 133.49   | 175.95                      | 71.1                 | 125.16   | 6.7              |   |
| Denver                 | 3                   | 1,340        | 169.90                      | 81.3                 | 138.10   | 168.42                      | 81.3                 | 136.89   | 0.9              |   |
| Other                  | 8                   | 3,596        | 173.49                      | 78.0                 | 135.24   | 170.56                      | 76.7                 | 130.74   | 3.4              |   |
| Domestic               | 82                  | 47,726       | 236.54                      | 84.4                 | 199.53   | 231.32                      | 84.1                 | 194.58   | 2.5              |   |
| International          | 6                   | 1,811        | 180.62                      | 69.1                 | 124.80   | 174.48                      | 62.8                 | 109.49   | 14.0             |   |
| All Locations -        |                     |              |                             |                      |          |                             |                      |          |                  |   |
| Constant US\$          | 88                  | 49,537       | 234.85                      | 83.8                 | 196.80   | 229.76                      | 83.3                 | 191.47   | 2.8              |   |

## Comparable Hotels in Nominal US\$

| Location | As of June 30, 2018 |              | Quarter ended June 30, 2018 |                      |        | Quarter ended June 30, 2017 |                      |        | Percent          |   |
|----------|---------------------|--------------|-----------------------------|----------------------|--------|-----------------------------|----------------------|--------|------------------|---|
|          | No. of Properties   | No. of Rooms | Average Room Rate           | Occupancy Percentage | RevPAR | Average Room Rate           | Occupancy Percentage | RevPAR | Change in RevPAR | % |

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|               | No.        |        | Average   |            |            |           | Average    |            |           | Percent |
|---------------|------------|--------|-----------|------------|------------|-----------|------------|------------|-----------|---------|
|               | of         | No. of | Average   | Occupancy  |            | Average   | Occupancy  |            | Change in |         |
|               | Properties | Rooms  | Room Rate | Percentage | RevPAR     | Room Rate | Percentage | RevPAR     | RevPAR    |         |
| International | 6          | 1,811  | \$180.62  | 69.1       | % \$124.80 | \$177.47  | 62.8       | % \$111.37 | 12.1      | %       |
| Domestic      | 82         | 47,726 | 236.54    | 84.4       | 199.53     | 231.32    | 84.1       | 194.58     | 2.5       |         |
| All Locations | 88         | 49,537 | 234.85    | 83.8       | 196.80     | 229.84    | 83.3       | 191.54     | 2.7       |         |

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Comparable Hotels by Location in Constant US\$ (by RevPAR)

| Location               | As of June 30, 2018 |              | Year-to-date ended June 30, 2018 |                      |          | Year-to-date ended June 30, 2017 |                      |          | Percent |   |                  |
|------------------------|---------------------|--------------|----------------------------------|----------------------|----------|----------------------------------|----------------------|----------|---------|---|------------------|
|                        | No. of Properties   | No. of Rooms | Average                          |                      | RevPAR   | Average                          |                      | RevPAR   | Percent |   | Change in RevPAR |
|                        |                     |              | Average Room Rate                | Occupancy Percentage |          | Average Room Rate                | Occupancy Percentage |          |         |   |                  |
| Maui/Oahu              | 3                   | 1,682        | \$369.42                         | 91.5 %               | \$338.07 | \$347.37                         | 90.1 %               | \$312.88 | 8.1     | % |                  |
| Jacksonville           | 1                   | 446          | 379.63                           | 78.0                 | 296.04   | 365.02                           | 78.7                 | 287.14   | 3.1     |   |                  |
| New York               | 5                   | 5,303        | 283.92                           | 84.8                 | 240.84   | 273.47                           | 85.8                 | 234.60   | 2.7     |   |                  |
| Florida Gulf Coast     | 2                   | 593          | 280.12                           | 79.8                 | 223.55   | 264.77                           | 79.6                 | 210.88   | 6.0     |   |                  |
| Washington, D.C. (CBD) | 5                   | 3,238        | 271.10                           | 80.8                 | 218.98   | 282.66                           | 83.2                 | 235.27   | (6.9)   | ) |                  |
| San Francisco/San Jose | 6                   | 3,853        | 251.75                           | 86.6                 | 217.97   | 248.54                           | 82.0                 | 203.87   | 6.9     |   |                  |
| Phoenix                | 4                   | 1,518        | 238.65                           | 81.5                 | 194.61   | 236.06                           | 78.4                 | 184.97   | 5.2     |   |                  |
| San Diego              | 4                   | 4,341        | 232.08                           | 83.3                 | 193.25   | 233.04                           | 83.8                 | 195.24   | (1.0)   | ) |                  |
| Los Angeles            | 3                   | 1,421        | 213.12                           | 90.0                 | 191.74   | 217.36                           | 88.2                 | 191.77   | —       |   |                  |
| Seattle                | 2                   | 1,315        | 229.83                           | 81.9                 | 188.18   | 227.60                           | 83.3                 | 189.65   | (0.8)   | ) |                  |
| Boston                 | 4                   | 3,185        | 227.91                           | 79.9                 | 182.21   | 232.73                           | 79.4                 | 184.80   | (1.4)   | ) |                  |
| Philadelphia           | 2                   | 810          | 208.50                           | 86.3                 | 179.87   | 201.47                           | 81.2                 | 163.63   | 9.9     |   |                  |
| New Orleans            | 1                   | 1,333        | 196.70                           | 84.1                 | 165.33   | 192.59                           | 80.0                 | 154.14   | 7.3     |   |                  |
| Orlando                | 1                   | 2,004        | 199.24                           | 78.3                 | 156.02   | 190.59                           | 75.4                 | 143.64   | 8.6     |   |                  |
| Orange County          | 4                   | 1,429        | 190.09                           | 78.9                 | 149.96   | 190.52                           | 79.3                 | 151.02   | (0.7)   | ) |                  |
| Miami                  | 2                   | 843          | 176.63                           | 84.7                 | 149.54   | 174.07                           | 84.7                 | 147.43   | 1.4     |   |                  |
| Atlanta                | 5                   | 1,936        | 187.72                           | 79.4                 | 149.03   | 194.27                           | 79.2                 | 153.89   | (3.2)   | ) |                  |
| Chicago                | 6                   | 2,392        | 196.59                           | 75.6                 | 148.68   | 192.54                           | 75.1                 | 144.56   | 2.8     |   |                  |
| Northern Virginia      | 5                   | 1,919        | 191.00                           | 77.6                 | 148.19   | 190.86                           | 75.4                 | 143.91   | 3.0     |   |                  |
| San Antonio            | 2                   | 1,513        | 195.77                           | 74.6                 | 146.01   | 189.26                           | 76.8                 | 145.26   | 0.5     |   |                  |
| Houston                | 4                   | 1,716        | 178.56                           | 75.7                 | 135.11   | 184.50                           | 74.6                 | 137.70   | (1.9)   | ) |                  |
| Denver                 | 3                   | 1,340        | 162.24                           | 74.4                 | 120.78   | 164.59                           | 72.4                 | 119.14   | 1.4     |   |                  |
| Other                  | 8                   | 3,596        | 175.03                           | 75.1                 | 131.44   | 172.53                           | 73.2                 | 126.37   | 4.0     |   |                  |
| Domestic               | 82                  | 47,726       | 230.40                           | 81.2                 | 187.08   | 228.56                           | 80.4                 | 183.66   | 1.9     |   |                  |
| International          | 6                   | 1,811        | 177.44                           | 66.7                 | 118.36   | 178.61                           | 59.3                 | 105.92   | 11.7    |   |                  |
| All Locations -        |                     |              |                                  |                      |          |                                  |                      |          |         |   |                  |
| Constant US\$          | 88                  | 49,537       | 228.80                           | 80.7                 | 184.57   | 227.19                           | 79.6                 | 180.82   | 2.1     |   |                  |

Comparable Hotels in Nominal US\$

| Location | As of June 30, 2018 |              | Year-to-date ended June 30, 2018 |                      |        | Year-to-date ended June 30, 2017 |                      |        | Percent |  |                  |
|----------|---------------------|--------------|----------------------------------|----------------------|--------|----------------------------------|----------------------|--------|---------|--|------------------|
|          | No. of Properties   | No. of Rooms | Average                          |                      | RevPAR | Average                          |                      | RevPAR | Percent |  | Change in RevPAR |
|          |                     |              | Average Room Rate                | Occupancy Percentage |        | Average Room Rate                | Occupancy Percentage |        |         |  |                  |

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|               |    |        |          |      |   |          |          |      |   |          |      |   |
|---------------|----|--------|----------|------|---|----------|----------|------|---|----------|------|---|
| International | 6  | 1,811  | \$177.44 | 66.7 | % | \$118.36 | \$177.20 | 59.3 | % | \$105.08 | 12.6 | % |
| Domestic      | 82 | 47,726 | 230.40   | 81.2 |   | 187.08   | 228.56   | 80.4 |   | 183.66   | 1.9  |   |
| All Locations | 88 | 49,537 | 228.80   | 80.7 |   | 184.57   | 227.16   | 79.6 |   | 180.79   | 2.1  |   |

Hotels Sales by Business Mix

The majority of our customers fall into three broad categories: transient, group, and contract business. The information below is derived from business mix data for 88 of our hotels for which business mix data is available from our managers. For additional detail on our business mix, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Annual Report on Form 10 K.

For the second quarter, group revenue improved 3.1%, with an increase in average rate of 2.7% and an increase in room nights sold of 0.4%. Corporate travel drove the improvement in group business with a revenue increase of 15.2%, due in particular to the Easter calendar shift, while association revenue declined 6.1%. An increase in transient rate of 2.3%, combined with a decrease in room nights sold of 0.1%, led to an increase in transient revenue of 2.2%. Additional airline contracts led to a 6.7% increase in contract business, driven by a 7.7% increase in contract business room nights sold.

Year-to-date, which is not impacted by the shift in the Easter holiday, revenue growth was driven by a transient revenue increase of 3.2%, while group revenue declined by 0.2%. The transient growth was driven by a 9.1% increase in retail revenue, while an increase in corporate group revenue was offset by a decline in group association revenue.



## Liquidity and Capital Resources

**Liquidity and Capital Resources of Host Inc. and Host L.P.** The liquidity and capital resources of Host Inc. and Host L.P. are derived primarily from the activities of Host L.P., which generates the capital required by our business from hotel operations, the incurrence of debt, the issuance of OP units or the sale of properties. Host Inc. is a REIT and its only significant asset is the ownership of partnership interests of Host L.P.; therefore, its financing and investing activities are conducted through Host L.P., except for the issuance of its common and preferred stock. Proceeds from stock issuances by Host Inc. are contributed to Host L.P. in exchange for OP units. Additionally, funds used by Host Inc. to pay dividends or to repurchase its stock are provided by Host L.P. Therefore, while we have noted those areas in which it is important to distinguish between Host Inc. and Host L.P., we have not included a separate discussion of liquidity and capital resources as the discussion below applies to both Host Inc. and Host L.P.

**Overview.** We look to maintain a capital structure and liquidity profile with an appropriate balance of cash, debt, and equity in order to provide financial flexibility given the inherent volatility of the lodging industry. This strategy has resulted in a lower overall cost of capital, allowing us to complete opportunistic investments and acquisitions and positions us to manage potential declines in operations throughout the lodging cycle. Over the past several years, we have decreased our leverage as measured by our net debt-to-EBITDA ratio and reduced our debt service obligations, leading to an increase in our fixed charge coverage ratio.

We intend to use available cash predominantly for acquisitions or other investments in our portfolio. If we are unable to find appropriate investment opportunities, we will consider other uses, such as a return of capital through dividends or common stock repurchases, the amounts of which will be determined by our operations and other market factors. Significant factors we review to determine the amount and timing of common stock repurchases include our current stock price compared to our determination of the underlying value of our assets, appropriate leverage levels, current and forecast operating results and the completion of hotel sales.

We have structured our debt profile to maintain a balanced maturity schedule and to minimize the number of assets that are encumbered by mortgage debt. Currently, none of our consolidated hotels are encumbered by mortgage debt. We have access to multiple types of financing, as substantially all of our debt consists of senior notes and borrowings under our credit facility, none of which are collateralized by specific hotels. We believe that we have sufficient liquidity and access to capital markets in order to take advantage of opportunities to make opportunistic acquisitions to enhance our portfolio, withstand declines in operating cash flow, pay near-term debt maturities, and fund our capital expenditures programs. We may continue to access capital markets if favorable conditions exist in order to enhance our liquidity and to fund cash needs.

**Cash Requirements.** We use cash for acquisitions, capital expenditures, debt payments, operating costs, and corporate and other expenses, as well as for dividends and distributions to stockholders and OP unitholders and stock and OP unit repurchases. As a REIT, Host Inc. is required to distribute to its stockholders at least 90% of its taxable income, excluding net capital gain, on an annual basis. On July 16, 2018, we paid a dividend of \$0.20 per share on Host Inc.'s common stock, which totaled approximately \$148 million. We have no significant debt maturities until 2020.

**Capital Resources.** As of June 30, 2018, we had \$646 million of cash and cash equivalents and \$551 million of available capacity under the revolver portion of our credit facility. We depend primarily on external sources of capital to finance growth, including acquisitions. As a result, the liquidity and debt capacity provided by our credit facility and the ability to issue senior unsecured debt are key components of our capital structure. Our financial flexibility (including our ability to incur debt, make distributions and make investments) is contingent on our ability to maintain compliance with the financial covenants of such indebtedness, which include, among other things, the allowable amounts of leverage, interest coverage and fixed charges.

If, at any time, we determine that market conditions are favorable, after taking into account our liquidity requirements, we may cause Host L.P. to issue senior notes or debentures exchangeable for shares of Host Inc. common stock. Given the total amount of our debt and our maturity schedule, we will continue to redeem or refinance senior notes from time to time, taking advantage of favorable market conditions. In February 2018, Host Inc.'s Board of Directors authorized repurchases of up to \$250 million of senior notes other than in accordance with their respective terms, of which the entire amount remains available under this authority. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. Repurchases of debt will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Any refinancing or retirement before the maturity date will affect earnings and NAREIT FFO per diluted share as a result of the payment of any applicable call premiums and the accelerated expensing of previously deferred financing costs. In addition, while we intend to use any available cash predominantly for acquisitions or other investments in our hotel portfolio, to the extent that we do not identify appropriate investments, we may elect in the future to use available cash for other purposes, including share repurchases, subject to market conditions. Accordingly, in light of our priorities in managing our capital structure and liquidity profile and given prevailing conditions and relative pricing in the capital markets, we may, at any time, subject to applicable securities laws, be considering, or be in discussions with respect to, the repurchase or issuance of exchangeable debentures and/or senior notes or the repurchase or sale of common stock. Any such transactions may, subject to applicable securities laws, occur simultaneously.

In order to have the flexibility to engage in repurchases and/or sales of common stock, depending upon prevailing market conditions, the following programs currently are in place. First, on May 25, 2018, we entered into a distribution agreement with J.P. Morgan Securities LLC, BNY Mellon Capital Markets, LLC, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. LLC, as sales agents, through which we may issue and sell, from time to time, shares of common stock having a combined aggregate offering price of up to \$500 million. The sales will be made in “at the market” offerings under SEC rules, including sales made directly on the NYSE. We may sell shares of common stock under this program from time to time based on market conditions, although we are not under an obligation to sell any shares. No shares were sold during the second quarter of 2018. Additionally, in February 2017, Host Inc.’s Board of Directors authorized a program to repurchase up to \$500 million of Host Inc. common stock. The common stock may be purchased from time to time depending upon market conditions, and may be purchased in the open market or through private transactions or by other means, including principal transactions with various financial institutions, like accelerated share repurchases, forwards, options, and similar transactions and through one or more trading plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. 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. We have not repurchased any shares under this program.

**Sources and Uses of Cash.** Our sources of cash include cash from operations, proceeds from debt and equity issuances, and proceeds from asset sales. Uses of cash include acquisitions, investments in our joint ventures, capital expenditures, operating costs, debt repayments, and repurchases of and distributions to equity holders.

**Cash Provided by Operations.** Net cash provided by operations increased \$40 million to \$655 million for the year-to-date ended June 30, 2018 compared to the same period of 2017 due primarily to the improvement in operations.

**Cash Used in Investing Activities.** Net cash used in investing activities was \$859 million during the first half of 2018 compared to \$380 million for the first half of 2017. Cash used in investing activities during 2018 consisted of the acquisition of a portfolio of three Hyatt hotels, while 2017 included the acquisition of The Don CeSar and the W Hollywood. We also spent approximately \$201 million on capital expenditures for the first half of 2018 compared to \$143 million in 2017. Cash provided by investing activities consisted of proceeds from the sale of two hotels in both 2018 and 2017.

The following tables summarize significant acquisitions and dispositions that have been completed as of August 6, 2018 (in millions):

| Transaction Date    | Description of Transaction                 | Investment  |
|---------------------|--------------------------------------------|-------------|
| <b>Acquisitions</b> |                                            |             |
| March 2018          | Acquisition of Portfolio of 3 Hyatt Hotels | \$ (1,000 ) |
|                     | Total acquisitions                         | \$ (1,000 ) |

| Transaction Date    | Description of Transaction                    | Net Proceeds <sup>(1)</sup> | Sales Price |
|---------------------|-----------------------------------------------|-----------------------------|-------------|
| <b>Dispositions</b> |                                               |                             |             |
| May 2018            | Disposition of W New York on Lexington Avenue | \$ 181                      | \$ 190      |
| January 2018        | Disposition of Key Bridge Marriott            | 181                         | 190         |

|                    |        |
|--------------------|--------|
| Total dispositions | \$ 362 |
|--------------------|--------|

(1) Proceeds are net of transfer taxes, other sales costs and FF&E replacement funds deposited directly to the property or hotel manager by the purchaser.

Cash Provided by (Used in) Financing Activities. In the first half of 2018, net cash used in financing activities was \$55 million compared to net cash provided by financing activities of \$55 million for the first half of 2017. Cash used in financing activities in 2018 and 2017 primarily consisted of dividend payments. Cash provided by financing activities in 2018 included draws on the credit facility, while 2017 included draws on the credit facility and the issuance of senior notes.

The following table summarizes significant issuances, net of deferred financing costs and issuance discounts, that have been completed through August 6, 2018 (in millions):

| Transaction Date    | Description of Transaction                          | Net Proceeds |
|---------------------|-----------------------------------------------------|--------------|
| Debt Issuances      |                                                     |              |
| January - July 2018 | Net draw on the revolver portion of credit facility | \$ 135       |
|                     | Total issuances                                     | \$ 135       |

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The following table summarizes significant equity transactions that have been completed through August 6, 2018 (in millions):

| Transaction Date    | Description of Transaction           | Transaction Amount |
|---------------------|--------------------------------------|--------------------|
| Equity of Host Inc. |                                      |                    |
| January - July 2018 | Dividend payments <sup>(1)(2)</sup>  | \$ (481 )          |
|                     | Cash payments on equity transactions | \$ (481 )          |

(1) In connection with the dividends, Host L.P. made distributions of \$486 million to its common OP unit holders.

(2) Includes the cash payment for the fourth quarter 2017 dividend that was paid in January 2018.

#### Debt

As of June 30, 2018, our total debt was \$4.2 billion, with an average interest rate of 4.0% and an average maturity of 4.5 years. Additionally, 66% of our debt has a fixed rate of interest and none of our hotels are encumbered by mortgage debt.

#### Financial Covenants

**Credit Facility Covenants.** Our credit facility contains certain important financial covenants concerning allowable leverage, unsecured interest coverage, and required fixed charge coverage. There were no changes to these financial covenants in connection with the May 2017 amendment and restatement of the credit facility. Total debt used in the calculation of our leverage ratio is based on a “net debt” concept, under which cash and cash equivalents in excess of \$100 million are deducted from our total debt balance for purposes of measuring compliance. To the extent that no amounts are outstanding under the credit facility, breaching these covenants is not an event of default thereunder.

We are in compliance with all of our financial covenants under the credit facility. The following table summarizes the results of the financial tests required by the credit facility as of June 30, 2018:

|                                                  | Actual Ratio  | Covenant Requirement     |
|--------------------------------------------------|---------------|--------------------------|
|                                                  | for all years |                          |
| Leverage ratio                                   | 2.4           | x Maximum ratio of 7.25x |
| Fixed charge coverage ratio                      | 6.4           | x Minimum ratio of 1.25x |
| Unsecured interest coverage ratio <sup>(1)</sup> | 9.7           | x Minimum ratio of 1.75x |

(1) If, at any time, our leverage ratio exceeds 7.0x, our minimum unsecured interest coverage ratio will be reduced to 1.5x.

#### Senior Notes Indenture Covenants

#### Covenants for Senior Notes Issued After We Attained an Investment Grade Rating

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We are in compliance with all of the financial covenants applicable to our Series D, Series E, Series F and Series G senior notes. The following table summarizes the results of the financial tests required by the senior notes indentures for our Series D, Series E, Series F and Series G senior notes and our actual credit ratios as of June 30, 2018:

|                                      | Actual Ratio | Covenant Requirement    |
|--------------------------------------|--------------|-------------------------|
|                                      |              | Minimum ratio of        |
| Unencumbered assets tests            | 478          | % 150%                  |
| Total indebtedness to total assets   | 21           | % Maximum ratio of 65%  |
| Secured indebtedness to total assets | 0            | % Maximum ratio of 40%  |
| EBITDA-to-interest coverage ratio    | 9.2          | x Minimum ratio of 1.5x |

Covenants for Senior Notes Issued Before We Attained an Investment Grade Rating

The terms of our senior notes that were issued before we attained an investment grade rating contained provisions providing that many of the restrictive covenants in the senior notes indenture would not apply should Host L.P. attain an investment grade rating. Accordingly, because our senior notes currently are rated investment grade by both Moody's and Standard & Poor's, the covenants in our senior notes indenture (for all series prior to the Series D senior notes) that previously limited our ability to incur indebtedness or

pay dividends no longer are applicable. Even if we were to lose the investment grade rating, however, we would be in compliance with all of our financial covenants under the senior notes indenture. The following table summarizes the actual credit ratios for our existing senior notes (other than the Series D, Series E, Series F and Series G senior notes) as of June 30, 2018 and the covenant requirements contained in the senior notes indenture that would be applicable at such times as our existing senior notes no longer are rated investment grade by either Moody's or Standard & Poor's:

|                                      | Actual Ratio* | Covenant Requirement    |
|--------------------------------------|---------------|-------------------------|
|                                      |               | Minimum ratio of        |
| Unencumbered assets tests            | 484           | % 125%                  |
| Total indebtedness to total assets   | 21            | % Maximum ratio of 65%  |
| Secured indebtedness to total assets | 0             | % Maximum ratio of 45%  |
| EBITDA-to-interest coverage ratio    | 9.2           | x Minimum ratio of 2.0x |

\*Because of differences in the calculation methodology between our Series D, Series E, Series F and Series G senior notes and our other senior notes with respect to covenant ratios, our actual ratios for the two sets of senior notes differ slightly.

For additional detail on our credit facility and senior notes, see our Annual Report on Form 10-K for the year ended December 31, 2017.

#### Dividend Policy

Host Inc. is required to distribute at least 90% of its annual taxable income, excluding net capital gain, to its stockholders in order to maintain its qualification as a REIT, including taxable income recognized for federal income tax purposes but with regard to which we do not receive cash. Funds used by Host Inc. to pay dividends on its common stock are provided through distributions from Host L.P. As of June 30, 2018, Host Inc. is the owner of approximately 99% of the Host L.P. common OP units. The remaining common OP units are owned by third party limited partners. Each Host L.P. OP unit may be redeemed for cash or, at the election of Host Inc., Host Inc. common stock based on the conversion ratio. The conversion ratio is 1.021494 shares of Host Inc. common stock for each Host L.P. OP unit.

Investors should take into account the non-controlling interest in the Host L.P. common OP units when analyzing common dividend payments by Host Inc. to its stockholders, as these common OP unitholders share, on a pro rata basis, in cash distributed by Host L.P. to all of its common OP unitholders. For example, if Host Inc. paid a \$1 per share dividend on its common stock, it would be based on the payment of a \$1.021494 per common OP unit distribution by Host L.P. to Host Inc., as well as to the other Host L.P. common OP unitholders.

Host Inc.'s policy on common dividends generally is to distribute, over time, 100% of its taxable income, which is dependent primarily on Host Inc.'s results of operations, as well as gains and losses on property sales. Host Inc. paid a regular quarterly cash dividend of \$0.20 per share on its common stock on July 16, 2018 to stockholders of record on June 29, 2018. All future dividends are subject to approval by Host Inc.'s Board of Directors. While Host Inc. intends to use available cash predominantly for acquisitions or other investments in its portfolio, to the extent that we do not identify appropriate investments, we may decide in the future to use available cash for other items, such as common stock repurchases or increased dividends, the amount of which dividends could be in excess of taxable income.

#### Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe are reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017. For a detailed discussion of the new accounting standards, see “Note 2. Summary of Significant Accounting Policies” in this quarterly report.



## Comparable Hotel Operating Statistics

To facilitate a quarter-to-quarter comparison of our operations, we present certain operating statistics (i.e., RevPAR, average daily rate and average occupancy) and operating results (revenues, expenses, hotel EBITDA and associated margins) for the periods included in this report on a comparable hotel basis in order to enable our investors to better evaluate our operating performance.

Because these statistics and operating results relate only to our hotel properties, they exclude results for our non-hotel properties and other real estate investments. We define our comparable hotels as properties:

- (i) that are owned or leased by us and the operations of which are included in our consolidated results for the entirety of the reporting periods being compared; and
- (ii) that have not sustained substantial property damage or business interruption, or undergone large-scale capital projects (as defined further below) during the reporting periods being compared.

The hotel business is capital-intensive and renovations are a regular part of the business. Generally, hotels under renovation remain comparable hotels. A large-scale capital project that would cause a hotel to be excluded from our comparable hotel set is an extensive renovation of several core aspects of the hotel, such as rooms, meeting space, lobby, bars, restaurants, and other public spaces. Both quantitative and qualitative factors are taken into consideration in determining if the renovation would cause a hotel to be removed from the comparable hotel set, including unusual or exceptional circumstances such as: a reduction or increase in room count, rebranding, a significant alteration of the business operations, or the closing of the hotel during the renovation.

We do not include an acquired hotel in our comparable hotel set until the operating results for that hotel have been included in our consolidated results for one full calendar year. For example, we acquired The Don CeSar in February of 2017. The hotel will not be included in our comparable hotel set until January 1, 2019. Hotels that we sell are excluded from the comparable hotel set once the transaction has closed. Similarly, hotels are excluded from our comparable hotel set from the date that they sustain substantial property damage or business interruption or commence a large-scale capital project. In each case, these hotels are returned to the comparable hotel set when the operations of the hotel have been included in our consolidated results for one full calendar year after completion of the repair of the property damage or cessation of the business interruption, or the completion of large-scale capital projects, as applicable.

Of the 95 hotels that we owned on June 30, 2018, 88 have been classified as comparable hotels. The operating results of the following hotels that we owned as of June 30, 2018 are excluded from comparable hotel results for these periods:

- The Phoenician (acquired in June 2015 and, beginning in the second quarter of 2016, business disruption due to extensive renovations, including all guestrooms and suites, a redesign of the lobby and public areas, renovation of pools, recreation areas and a restaurant and a re-configured spa and fitness center);
- The Don CeSar and Beach House Suites complex (acquired in February 2017);
- W Hollywood (acquired in March 2017);
- Andaz Maui at Wailea Resort (acquired in March 2018);
- Grand Hyatt San Francisco (acquired in March 2018);
- Hyatt Regency Coconut Point Resort and Spa (acquired in March 2018); and
- The Ritz-Carlton, Naples removed in the second quarter of 2018 (business interruption due to extensive renovations including restoration of the façade that require closure of the hotel for over two months, coordinated with renovation and expansion of restaurant areas and renovation to the spa and ballrooms ).

The operating results of 6 hotels disposed of in 2018 and 2017 are not included in comparable hotel results for the periods presented herein.

CONSTANT US\$ AND NOMINAL US\$

Operating results denominated in foreign currencies are translated using the prevailing exchange rates on the date of the transaction, or monthly based on the weighted average exchange rate for the period. For comparative purposes, we also present the RevPAR results for the prior year assuming the results of our foreign operations were translated using the same exchange rates that were effective for the comparable periods in the current year, thereby eliminating the effect of currency fluctuation for the year-over-year comparisons. We believe that this presentation is useful to investors as it provides clarity with respect to the growth in RevPAR in the local currency of the hotel consistent with the manner in which we would evaluate our domestic portfolio. However, the

estimated effect of changes in foreign currency has been reflected in the actual and forecast results of net income, EBITDA, earnings per diluted share and Adjusted FFO per diluted share. Nominal US\$ results include the effect of currency fluctuations, consistent with our financial statement presentation.

## Non-GAAP Financial Measures

We use certain “non-GAAP financial measures,” which are measures of our historical or future financial performance that are not calculated and presented in accordance with GAAP, within the meaning of applicable SEC rules. These measures include the following:

- Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization (“EBITDA”), Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization for real estate (“EBITDAre”) and Adjusted EBITDAre, as a measure of performance for Host Inc. and Host L.P.,
  - Funds From Operations (“FFO”) and FFO per diluted share, both calculated in accordance with National Association of Real Estate Investment Trusts (“NAREIT”) guidelines and with certain adjustments from those guidelines, as a measure of performance for Host Inc., and
  - Comparable hotel operating results, as a measure of performance for Host Inc. and Host L.P.
- The following discussion defines these measures and presents why we believe they are useful supplemental measures of our performance.

Set forth below for each such non-GAAP financial measure is a reconciliation of the measure with the financial measure calculated and presented in accordance with GAAP that we consider most directly comparable thereto. We also have included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures” in our Annual Report on Form 10-K for the year ended December 31, 2017 further explanations of the adjustments being made, a statement disclosing the reasons why we believe the presentation of each of the non-GAAP financial measures provide useful information to investors regarding our financial condition and results of operations, the additional purposes for which we use the non-GAAP financial measures and limitations on their use.

## EBITDA, EBITDAre and Adjusted EBITDAre

### EBITDA

EBITDA is a commonly used measure of performance in many industries. Management believes EBITDA provides useful information to investors regarding our results of operations because it helps us and our investors evaluate the ongoing operating performance of our properties after removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization). Management also believes the use of EBITDA facilitates comparisons between us and other lodging REITs, hotel owners who are not REITs and other capital-intensive companies. Management uses EBITDA to evaluate property-level results and as one measure in determining the value of acquisitions and dispositions and, like FFO and Adjusted FFO per diluted share, it is widely used by management in the annual budget process and for compensation programs.

### EBITDAre and Adjusted EBITDAre

We present EBITDAre in accordance with NAREIT guidelines, as defined in its September 2017 white paper “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate,” to provide an additional performance measure to facilitate the evaluation and comparison of our results with other REITs. NAREIT defines EBITDAre as net income (calculated in accordance with GAAP) excluding interest expense, income tax, depreciation and amortization, gains or losses on disposition of depreciated property (including gains or losses on change of control),

impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate, and adjustments to reflect the entity's pro rata share of EBITDA of unconsolidated affiliates.

We make additional adjustments to EBITDAre when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Adjusted EBITDAre, when combined with the primary GAAP presentation of net income, is beneficial to an investor's understanding of our operating performance. Adjusted EBITDAre also is similar to what is used in calculating certain credit ratios for our credit facility and senior notes. We adjust EBITDAre for the following items, which may occur in any period, and refer to this measure as Adjusted EBITDAre:

• **Property Insurance Gains** – We exclude the effect of property insurance gains reflected in our consolidated statements of operations because we believe that including them in Adjusted EBITDAre is not consistent with reflecting the ongoing performance of our assets. In addition, property insurance gains could be less important to investors given that the depreciated asset book value written off in connection with the calculation of the property insurance gain often does not reflect the market value of real estate assets.

• **Acquisition Costs** – Under GAAP, costs associated with completed property acquisitions that are considered business combinations are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the company.

• **Litigation Gains and Losses** – We exclude the effect of gains or losses associated with litigation recorded under GAAP that we consider outside the ordinary course of business. We believe that including these items is not consistent with our ongoing operating performance.

In unusual circumstances, we also may adjust EBITDAre for gains or losses that management believes are not representative of the company's current operating performance. The last such adjustment was a 2013 exclusion of a gain from an eminent domain claim.

In the past, we presented Adjusted EBITDA as a supplemental measure of our performance. That metric is calculated in a similar manner as Adjusted EBITDAre presented here, with the exception of the adjustment for non-controlling partners' pro rata share of Adjusted EBITDA, which totaled \$2 million and \$5 million for the second quarter and year-to-date of 2017, respectively. The rationale for including 100% of EBITDAre for consolidated affiliates with non-controlling interests is that the full amount of any debt of these affiliates is reported in our consolidated balance sheet and therefore metrics using total debt to EBITDAre provide a better understanding of the company's leverage. This is also consistent with NAREIT's definition of EBITDAre.

The following table provides a reconciliation of EBITDA, EBITDAre, and Adjusted EBITDAre to net income, the financial measure calculated and presented in accordance with GAAP that we consider the most directly comparable:

Reconciliation of Net Income to EBITDA, EBITDAre and Adjusted EBITDAre for Host Inc. and Host L.P.

(in millions)

|                               | Quarter ended June 30, |       | Year-to-date ended June 30, |       |
|-------------------------------|------------------------|-------|-----------------------------|-------|
|                               | 2018                   | 2017  | 2018                        | 2017  |
| Net income <sup>(1)</sup>     | \$211                  | \$212 | \$467                       | \$373 |
| Interest expense              | 45                     | 43    | 89                          | 82    |
| Depreciation and amortization | 176                    | 178   | 346                         | 358   |
| Income taxes                  | 17                     | 27    | 21                          | 21    |
| EBITDA <sup>(1)</sup>         | 449                    | 460   | 923                         | 834   |

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|                                                            |       |       |        |       |
|------------------------------------------------------------|-------|-------|--------|-------|
| Gain on dispositions <sup>(2)</sup>                        | —     | (28 ) | (119 ) | (43 ) |
| Non-cash impairment loss                                   | 13    | —     | 21     | —     |
| Equity investment adjustments:                             |       |       |        |       |
| Equity in earnings of Euro JV <sup>(4)</sup>               | (6 )  | (5 )  | (8 )   | (5 )  |
| Equity in earnings of affiliates other than Euro JV        | (3 )  | (3 )  | (11 )  | (10 ) |
| Pro rata EBITDAre of Euro JV <sup>(4)</sup>                | 17    | 14    | 23     | 20    |
| Pro rata EBITDAre of equity investments other than Euro JV | 6     | 8     | 17     | 19    |
| EBITDAre <sup>(1)(5)</sup>                                 | 476   | 446   | 846    | 815   |
| Adjustments to EBITDAre:                                   |       |       |        |       |
| Acquisition costs <sup>(3)</sup>                           | —     | —     | —      | 1     |
| Adjusted EBITDAre <sup>(1)(5)</sup>                        | \$476 | \$446 | \$846  | \$816 |

- (1) Net income, EBITDA, EBITDAre, Adjusted EBITDAre, NAREIT FFO and Adjusted FFO include a gain of \$1 million for each of the year-to-date periods ended June 30, 2018 and 2017, for the sale of the portion of land attributable to individual units sold by the Maui timeshare joint venture.
- (2) Reflects the sale of two hotels in each of 2018 and 2017.
- (3) Effective January 1, 2018 we adopted Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. As a result, the recent Hyatt portfolio acquisition was considered an asset acquisition and the related \$17 million of acquisition costs were capitalized.
- (4) Represents our share of earnings and pro rata EBITDAre from the Euro JV in which we hold an approximate one-third non-controlling interest.
- (5) Effective December 31, 2017, we present EBITDAre, reported in accordance with NAREIT guidelines, and Adjusted EBITDAre as supplemental measures of our performance. Our prior year results have been updated to conform with the current year presentation. Under the new presentation, we include all of the EBITDA of consolidated partnerships, including the non-controlling partners' share, which has increased the previously reported second quarter and year-to-date 2017 Adjusted EBITDA by \$2 million and \$5 million, respectively.

## FFO Measures

We present NAREIT FFO and NAREIT FFO per diluted share as non-GAAP measures of our performance in addition to our earnings (loss) per share (calculated in accordance with GAAP). We calculate NAREIT FFO per diluted share as our NAREIT FFO (defined as set forth below) for a given operating period, as adjusted for the effect of dilutive securities, divided by the number of fully diluted shares outstanding during such period in accordance with NAREIT guidelines. NAREIT defines FFO as net income (loss) (calculated in accordance with GAAP), excluding gains (losses) from sales of real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation, amortization and impairments, and adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect our pro rata share of the FFO of those entities on the same basis.

We also present Adjusted FFO per diluted share when evaluating our performance because management believes that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. Management historically has made the adjustments detailed below in evaluating our performance, in our annual budget process, and for our compensation programs. We believe that the presentation of Adjusted FFO per diluted share, when combined with both the primary GAAP presentation of earnings per share and FFO per diluted share as defined by NAREIT, provides useful supplemental information that is beneficial to an investor's complete understanding of our operating performance. We adjust NAREIT FFO per diluted share for the following items, which may occur in any period, and refer to this measure as Adjusted FFO per diluted share:

• **Gains and Losses on the Extinguishment of Debt** – We exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of the write-off of deferred financing costs from the original issuance of the debt being redeemed or retired and incremental interest expense incurred during the refinancing period. We also exclude the gains on debt repurchases and the original issuance costs associated with the retirement of preferred stock. We believe that these items are not reflective of our ongoing finance costs.

• **Acquisition Costs** – Under GAAP, costs associated with completed property acquisitions that are considered business combinations are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the company.

• **Litigation Gains and Losses** – We exclude the effect of gains or losses associated with litigation recorded under GAAP that we consider outside the ordinary course of business. We believe that including these items is not consistent with our ongoing operating performance.

In unusual circumstances, we also may adjust NAREIT FFO for gains or losses that management believes are not representative of our current operating performance. For example, in 2017, as a result of the reduction of corporate income tax rates from 35% to 21% caused by the Tax Cuts and Jobs Act, we remeasured our domestic deferred tax assets as of December 31, 2017 and recorded a one-time adjustment to reduce the deferred tax assets and increase the provision for income taxes by approximately \$11 million. Additionally, similar corporate income tax rate reductions affected our European Joint Venture, causing the remeasurement of the net deferred tax assets and liabilities in France and Belgium, resulting in a net tax benefit to us of \$5 million. We do not consider these adjustments to be reflective of our ongoing operating performance and therefore excluded these items from Adjusted FFO.



The following table provides a reconciliation of the differences between our non-GAAP financial measures, NAREIT FFO and Adjusted FFO (separately and on a per diluted share basis), and net income, the financial measure calculated and presented in accordance with GAAP that we consider most directly comparable:

# Host Inc. Reconciliation of Net Income to

## NAREIT and Adjusted Funds From Operations per Diluted Share

(in millions, except per share amount)

|                                                                                | Quarter ended<br>June 30, |       | Year-to-date<br>ended June 30, |       |
|--------------------------------------------------------------------------------|---------------------------|-------|--------------------------------|-------|
|                                                                                | 2018                      | 2017  | 2018                           | 2017  |
| Net income <sup>(1)</sup>                                                      | \$211                     | \$212 | \$467                          | \$373 |
| Less: Net income attributable to non-controlling interests                     | (2 )                      | (2 )  | (5 )                           | (5 )  |
| Net income attributable to Host Inc.                                           | 209                       | 210   | 462                            | 368   |
| Adjustments:                                                                   |                           |       |                                |       |
| Gain on dispositions <sup>(2)</sup>                                            | —                         | (28 ) | (119 )                         | (43 ) |
| Depreciation and amortization                                                  | 175                       | 177   | 344                            | 357   |
| Non-cash impairment loss                                                       | 13                        | —     | 21                             | —     |
| Equity investment adjustments:                                                 |                           |       |                                |       |
| Equity in earnings of affiliates                                               | (9 )                      | (8 )  | (19 )                          | (15 ) |
| Pro rata FFO of equity investments                                             | 17                        | 15    | 32                             | 28    |
| Consolidated partnership adjustments:                                          |                           |       |                                |       |
| FFO adjustment for non-controlling partnerships                                | (1 )                      | (1 )  | (1 )                           | (2 )  |
| FFO adjustments for non-controlling interests of Host L.P.                     | (2 )                      | (2 )  | (3 )                           | (4 )  |
| NAREIT FFO <sup>(1)</sup>                                                      | 402                       | 363   | 717                            | 689   |
| Adjustments to NAREIT FFO:                                                     |                           |       |                                |       |
| Acquisition costs <sup>(3)</sup>                                               | —                         | —     | —                              | 1     |
| Loss on debt extinguishment                                                    | —                         | 1     | —                              | 1     |
| Adjusted FFO <sup>(1)</sup>                                                    | \$402                     | \$364 | \$717                          | \$691 |
| For calculation on a per share basis <sup>(4)</sup> :                          |                           |       |                                |       |
| Diluted weighted average shares outstanding - EPS, NAREIT FFO and Adjusted FFO | 740.2                     | 738.8 | 739.9                          | 738.5 |
| NAREIT FFO and Adjusted FFO per diluted share                                  | \$.54                     | \$.49 | \$.97                          | \$.93 |
| Adjusted FFO per diluted share                                                 | \$.54                     | \$.49 | \$.97                          | \$.94 |

(1-3) Refer to the corresponding footnote on the Reconciliation of Net Income to EBITDA, EBITDAre and Adjusted EBITDAre for Host Inc. and Host L.P.

(4) Earnings per diluted share and NAREIT FFO and Adjusted FFO per diluted share are adjusted for the effects of dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, preferred OP units held by non-controlling partners and other non-controlling interests that have the option to convert their limited partner interests to common OP units. No effect is shown for securities if they are anti-dilutive.

### Comparable Hotel Operating Results

We present certain operating results of our hotels, such as hotel revenues, expenses, food and beverage profit and EBITDA (and the related margins), on a comparable hotel, or “same store,” basis as supplemental information for investors. For an explanation of which properties we consider to be “comparable hotels”, see “Comparable Hotel Operating Statistics” above.

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The following tables present certain operating results and statistics for our comparable hotels for the periods presented herein and a reconciliation of the differences between comparable hotel EBITDA, a non-GAAP financial measure, and net income, the financial measure calculated and presented in accordance with GAAP that we consider most directly comparable. Similar reconciliations of the differences between (i) comparable hotel revenues and (ii) our revenues as calculated and presented in accordance with GAAP (each of which is used in the applicable margin calculation), and between (iii) comparable hotel expenses and (iv) operating costs and expenses as calculated and presented in accordance with GAAP, are also included in the reconciliation:

# Comparable Hotel Results for Host Inc. and Host L.P.

(in millions, except hotel statistics)

|                                                                 | Quarter ended June 30, |        |       | Year-to-date ended June 30, |        |   |       |   |
|-----------------------------------------------------------------|------------------------|--------|-------|-----------------------------|--------|---|-------|---|
|                                                                 | 2018                   | 2017   |       | 2018                        | 2017   |   |       |   |
| Number of hotels                                                | 88                     | 88     |       | 88                          | 88     |   |       |   |
| Number of rooms                                                 | 49,537                 | 49,537 |       | 49,537                      | 49,537 |   |       |   |
| Change in comparable hotel RevPAR -                             |                        |        |       |                             |        |   |       |   |
| Constant US\$                                                   | 2.8                    | %      | —     | 2.1                         | %      | — |       |   |
| Nominal US\$                                                    | 2.7                    | %      | —     | 2.1                         | %      | — |       |   |
| Operating profit margin <sup>(1)</sup>                          | 17.3                   | %      | 16.9  | %                           | 15.2   | % | 14.9  | % |
| Comparable hotel EBITDA margin <sup>(1)</sup>                   | 32.3                   | %      | 31.4  | %                           | 30.0   | % | 29.25 | % |
| Food and beverage profit margin <sup>(1)</sup>                  | 35.4                   | %      | 33.9  | %                           | 34.1   | % | 34.1  | % |
| Comparable hotel food and beverage profit margin <sup>(1)</sup> | 35.7                   | %      | 34.8  | %                           | 34.5   | % | 34.4  | % |
|                                                                 |                        |        |       |                             |        |   |       |   |
| Net income                                                      | \$211                  |        | \$212 |                             | \$467  |   | \$373 |   |
| Depreciation and amortization                                   | 189                    |        | 178   |                             | 367    |   | 358   |   |
| Interest expense                                                | 45                     |        | 43    |                             | 89     |   | 82    |   |
| Provision for income taxes                                      | 17                     |        | 27    |                             | 21     |   | 21    |   |
| Gain on sale of property and corporate level                    |                        |        |       |                             |        |   |       |   |
|                                                                 |                        |        |       |                             |        |   |       |   |
| income/expense                                                  | 20                     |        | (12   | )                           | (85    | ) | (6    | ) |
| Non-comparable hotel results, net <sup>(2)</sup>                | (45                    | )      | (38   | )                           | (91    | ) | (98   | ) |
| Comparable hotel EBITDA                                         | \$437                  |        | \$410 |                             | \$768  |   | \$730 |   |

|          | Quarter ended June 30, 2018                      |                          |              |                          | Quarter ended June 30, 2017                      |                          |              |                          |
|----------|--------------------------------------------------|--------------------------|--------------|--------------------------|--------------------------------------------------|--------------------------|--------------|--------------------------|
|          | Adjustments                                      |                          |              |                          | Adjustments                                      |                          |              |                          |
|          | Non-comparable hotel results, net <sup>(2)</sup> |                          |              |                          | Non-comparable hotel results, net <sup>(2)</sup> |                          |              |                          |
|          | Depreciation and corporate level items           |                          |              |                          | Depreciation and corporate level items           |                          |              |                          |
|          | GAAP Results                                     | Comparable Hotel Results | GAAP Results | Comparable Hotel Results | GAAP Results                                     | Comparable Hotel Results | GAAP Results | Comparable Hotel Results |
| Revenues |                                                  |                          |              |                          |                                                  |                          |              |                          |

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|                                                         |       |          |        |        |       |          |        |        |
|---------------------------------------------------------|-------|----------|--------|--------|-------|----------|--------|--------|
| Room                                                    | \$973 | \$ (86 ) | \$ —   | \$ 887 | \$940 | \$ (77 ) | \$ —   | \$ 863 |
| Food and beverage                                       | 449   | (57 )    | —      | 392    | 416   | (42 )    | —      | 374    |
| Other                                                   | 96    | (20 )    | —      | 76     | 85    | (16 )    | —      | 69     |
| Total revenues                                          | 1,518 | (163 )   | —      | 1,355  | 1,441 | (135 )   | —      | 1,306  |
| Expenses                                                |       |          |        |        |       |          |        |        |
| Room                                                    | 238   | (22 )    | —      | 216    | 230   | (20 )    | —      | 210    |
| Food and beverage                                       | 290   | (38 )    | —      | 252    | 275   | (31 )    | —      | 244    |
| Other                                                   | 508   | (58 )    | —      | 450    | 490   | (48 )    | —      | 442    |
| Depreciation and amortization                           | 189   | —        | (189 ) | —      | 178   | —        | (178 ) | —      |
| Corporate and other expenses                            | 30    | —        | (30 )  | —      | 26    | —        | (26 )  | —      |
| Gain on insurance and business interruption settlements | —     | —        | —      | —      | (2 )  | 2        | —      | —      |
| Total expenses                                          | 1,255 | (118 )   | (219 ) | 918    | 1,197 | (97 )    | (204 ) | 896    |
| Operating Profit - Comparable                           |       |          |        |        |       |          |        |        |
| Hotel EBITDA                                            | \$263 | \$ (45 ) | \$ 219 | \$ 437 | \$244 | \$ (38 ) | \$ 204 | \$ 410 |

|                                                         | Year-to-date ended June 30, 2018               |                                                  |                               |                          | Year-to-date ended June 30, 2017               |                                                  |                               |                          |
|---------------------------------------------------------|------------------------------------------------|--------------------------------------------------|-------------------------------|--------------------------|------------------------------------------------|--------------------------------------------------|-------------------------------|--------------------------|
|                                                         | Adjustments                                    |                                                  |                               |                          | Adjustments                                    |                                                  |                               |                          |
|                                                         | Non-comparable hotel and corporate level items |                                                  |                               |                          | Non-comparable hotel and corporate level items |                                                  |                               |                          |
|                                                         | GAAP Results                                   | Non-comparable hotel results, net <sup>(2)</sup> | Depreciation and amortization | Comparable Hotel Results | GAAP Results                                   | Non-comparable hotel results, net <sup>(2)</sup> | Depreciation and amortization | Comparable Hotel Results |
| <b>Revenues</b>                                         |                                                |                                                  |                               |                          |                                                |                                                  |                               |                          |
| Room                                                    | \$1,817                                        | \$ (162 )                                        | \$ —                          | \$ 1,655                 | \$1,783                                        | \$ (162 )                                        | \$ —                          | \$ 1,621                 |
| Food and beverage                                       | 862                                            | (105 )                                           | —                             | 757                      | 838                                            | (96 )                                            | —                             | 742                      |
| Other                                                   | 185                                            | (36 )                                            | —                             | 149                      | 168                                            | (35 )                                            | —                             | 133                      |
| <b>Total revenues</b>                                   | <b>2,864</b>                                   | <b>(303 )</b>                                    | <b>—</b>                      | <b>2,561</b>             | <b>2,789</b>                                   | <b>(293 )</b>                                    | <b>—</b>                      | <b>2,496</b>             |
| <b>Expenses</b>                                         |                                                |                                                  |                               |                          |                                                |                                                  |                               |                          |
| Room                                                    | 462                                            | (40 )                                            | —                             | 422                      | 449                                            | (40 )                                            | —                             | 409                      |
| Food and beverage                                       | 568                                            | (72 )                                            | —                             | 496                      | 552                                            | (65 )                                            | —                             | 487                      |
| Other                                                   | 975                                            | (100 )                                           | —                             | 875                      | 965                                            | (95 )                                            | —                             | 870                      |
| Depreciation and amortization                           | 367                                            | —                                                | (367 )                        | —                        | 358                                            | —                                                | (358 )                        | —                        |
| Corporate and other expenses                            | 58                                             | —                                                | (58 )                         | —                        | 55                                             | —                                                | (55 )                         | —                        |
| Gain on insurance and business interruption settlements | —                                              | —                                                | —                             | —                        | (5 )                                           | 5                                                | —                             | —                        |
| <b>Total expenses</b>                                   | <b>2,430</b>                                   | <b>(212 )</b>                                    | <b>(425 )</b>                 | <b>1,793</b>             | <b>2,374</b>                                   | <b>(195 )</b>                                    | <b>(413 )</b>                 | <b>1,766</b>             |
| <b>Operating Profit - Comparable</b>                    |                                                |                                                  |                               |                          |                                                |                                                  |                               |                          |
| Hotel EBITDA                                            | \$434                                          | \$ (91 )                                         | \$ 425                        | \$ 768                   | \$415                                          | \$ (98 )                                         | \$ 413                        | \$ 730                   |

(1) Profit margins are calculated by dividing the applicable operating profit by the related revenue amount. GAAP profit margins are calculated using amounts presented in the consolidated statements of operations. Comparable hotel margins are calculated using amounts presented in the above tables.

(2) Non-comparable hotel results, net, includes the following items: (i) the results of operations of our non-comparable hotels and sold hotels, which operations are included in our consolidated statements of operations as continuing operations, (ii) gains on insurance settlements and business interruption proceeds, and (iii) the results of our office spaces and other non-hotel income.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

All information in this section applies to Host Inc. and Host L.P.

#### Interest Rate Sensitivity

As of June 30, 2018 and December 31, 2017, 66% and 70%, respectively, of our outstanding debt bore interest at fixed rates. To manage interest rate risk applicable to our debt, we may enter into interest rate swaps or caps. The interest rate derivatives into which we enter are strictly to hedge interest rate risk, and are not for trading purposes. The percentages above reflect the effect of any derivatives into which we have entered to manage interest rate risk. No

interest rate hedging transactions were entered into during the first or second quarters of 2018. See Item 7A of our most recent Annual Report on Form 10-K.

#### Exchange Rate Sensitivity

As we have operations outside of the United States (specifically, the ownership of hotels in Brazil, Canada and Mexico and our minority investments in the Euro JV and a joint venture in India), currency exchange risks arise in the normal course of our business. To manage the currency exchange risk, we may enter into forward or option contracts or hedge our investment through the issuance of foreign currency denominated debt. We have two foreign currency forward sale contracts for a total notional amount of \$36 million. No forward purchase contracts were entered into during the first or second quarters of 2018.

The foreign currency exchange agreements into which we have entered are strictly to hedge foreign currency risk and not for trading purposes. In addition to the forward sales contracts, we have designated \$252 million of the foreign currency draws on our credit facility as hedges of net investments in foreign operations. As a result, currency translation adjustments in the designated credit facility draws are recorded to other comprehensive income (loss), which adjustments offset a portion of the translation adjustment related to our international investments.

See Item 7A of our most recent Annual Report on Form 10-K.

Item 4. Controls and Procedures

Controls and Procedures (Host Hotels & Resorts, Inc.)

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes to Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures (Host Hotels & Resorts, L.P.)

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including Host Inc.'s Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, Host Inc.'s Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes to Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities (Host Hotels & Resorts, Inc.)

On February 22, 2017, Host Inc. announced a program to repurchase up to \$500 million of common stock. The common stock may be purchased from time to time depending upon market conditions, and repurchases may be made in the open market or through private transactions or by other means, including principal transactions with various financial institutions, like accelerated share repurchases, forwards, options and similar transactions, and through one or more trading plans designed to comply with Rule 10b5-1 under the Securities Act of 1934, as amended. The program does not obligate us to repurchase any specific number of shares or any specific dollar amount and may be suspended at any time at our discretion. No repurchases were made in the first or second quarters of 2018.

| Period                         | Total<br>Number of<br>Host Inc.<br>Common<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Common<br>Share | Total<br>Number of<br>Common<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of<br>Common<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(in millions) |
|--------------------------------|------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| April 1, 2018 – April 30, 2018 | —                                                                | \$ —                                               | —                                                                                                                  | \$ 500                                                                                                                                      |
| May 1, 2018 – May 31, 2018     | —                                                                | —                                                  | —                                                                                                                  | 500                                                                                                                                         |
| June 1, 2018 – June 30, 2018   | —                                                                | —                                                  | —                                                                                                                  | 500                                                                                                                                         |
| Total                          | —                                                                | \$ —                                               | —                                                                                                                  | \$ 500                                                                                                                                      |

## Issuer Purchases of Equity Securities (Host Hotels &amp; Resorts, L.P.)

| Period                         | Total Number of<br>OP Units Purchased | Average Price<br>Paid per Unit                                | Total Number of<br>OP Units Purchased<br>as Part of<br>Publicly Announced<br>Plans or Programs | Approximate Dollar Value<br>of Units that May Yet Be<br>Purchased Under the<br>Plans or Programs<br>(in millions) |
|--------------------------------|---------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| April 1, 2018 – April 30, 2018 | 7,626                                 | * 1.021494 shares of Host Hotels & Resorts, Inc. common stock | —                                                                                              | —                                                                                                                 |
| May 1, 2018 – May 31, 2018     | 149,596                               | * 1.021494 shares of Host Hotels & Resorts, Inc. common stock | —                                                                                              | —                                                                                                                 |
| June 1, 2018 – June 30, 2018   | 474                                   | * 1.021494 shares of Host Hotels & Resorts, Inc. common stock | —                                                                                              | —                                                                                                                 |



|       |         |   |   |
|-------|---------|---|---|
| Total | 157,696 | — | — |
|-------|---------|---|---|

\* Reflects common OP units redeemed by holders in exchange for shares of Host Inc's common stock.

## Item 6. Exhibits

In reviewing the agreements included as exhibits to this report, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the company, its subsidiaries or other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or date as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representation and warranties may not describe the actual state of affairs as the date they were made or at any other time.

The exhibits listed on the accompanying Exhibit Index are filed as part of this report and such Exhibit Index is incorporated herein by reference.

## Exhibit No. Description

|       |                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10    | Material Contracts                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 10.1  | <u>Distribution Agreement, dated May 25, 2018, among Host Hotels &amp; Resorts, Inc., J.P. Morgan Securities LLC, BNY Mellon Capital Markets, LLC, Deutsche Bank Securities Inc., Goldman Sachs &amp; Co. LLC, Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated and Morgan Stanley &amp; Co. LLC (incorporated by reference to Exhibit 1.1 to Host Hotels &amp; Resorts, Inc. Current Report on Form 8-K, filed May 25, 2018).</u> |
| 12    | Statements re Computation of Ratios                                                                                                                                                                                                                                                                                                                                                                                                      |
| 12.1* | <u>Computation of Ratios of Earnings to Fixed Charges for Host Hotels &amp; Resorts, Inc.</u>                                                                                                                                                                                                                                                                                                                                            |
| 12.2* | <u>Computation of Ratios of Earnings to Fixed Charges for Host Hotels &amp; Resorts, L.P.</u>                                                                                                                                                                                                                                                                                                                                            |
| 31    | Rule 13a-14(a)/15d-14(a) Certifications                                                                                                                                                                                                                                                                                                                                                                                                  |
| 31.1* | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Host Hotels &amp; Resorts, Inc.</u>                                                                                                                                                                                                                                                                                            |
| 31.2* | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Host Hotels &amp; Resorts, Inc.</u>                                                                                                                                                                                                                                                                                            |
| 31.3* |                                                                                                                                                                                                                                                                                                                                                                                                                                          |

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Host Hotels & Resorts, L.P.

31.4\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Host Hotels & Resorts, L.P.

32 Section 1350 Certifications

32.1†\* Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Host Hotels & Resorts, Inc.

32.2†\* Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 for Host Hotels & Resorts, L.P.

101 XBRL

101.INS XBRL Instance Document. Submitted electronically with this report.

101.SCH XBRL Taxonomy Extension Schema Document. Submitted electronically with this report.

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| Exhibit No. | Description                                                                                                                 |
|-------------|-----------------------------------------------------------------------------------------------------------------------------|
| 101.CAL     | XBRL<br>Taxonomy<br>Calculation<br>Linkbase<br>Document.<br>Submitted<br>electronically<br>with this<br>report.             |
| 101.DEF     | XBRL<br>Taxonomy<br>Extension<br>Definition<br>Linkbase<br>Document.<br>Submitted<br>electronically<br>with this<br>report. |
| 101.LAB     | XBRL<br>Taxonomy<br>Label<br>Linkbase<br>Document.<br>Submitted<br>electronically<br>with this<br>report.                   |
| 101.PRE     | XBRL<br>Taxonomy<br>Presentation<br>Linkbase<br>Document.<br>Submitted<br>electronically<br>with this<br>report.            |

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations for the Quarter and Year-to-date ended June 30, 2018 and 2017, respectively, for Host Hotels & Resorts, Inc.; (ii) the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively, for Host Hotels & Resorts, Inc.; (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the Quarter and Year-to-date ended June 30, 2018 and 2017, respectively, for Host Hotels & Resorts, Inc.; (iv) the Condensed Consolidated Statements of Cash Flows for the Year-to-date ended June 30, 2018 and 2017, respectively, for Host Hotels & Resorts, Inc. (v) the Condensed Consolidated Statements of Operations for the Quarter and Year-to-date ended June 30, 2018 and 2017, respectively,

for Host Hotels & Resorts, L.P.; (vi) the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively, for Host Hotels & Resorts, L.P.; (vii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the Quarter and Year-to-date ended June 30, 2018 and 2017, respectively, for Host Hotels & Resorts, L.P.; (viii) the Condensed Consolidated Statements of Cash Flows for the Year-to-date ended June 30, 2018 and 2017, respectively, for Host Hotels & Resorts, L.P.; and (ix) Notes to Condensed Consolidated Financial Statements that have been detail tagged.

\* Filed herewith.

This certificate is being furnished solely to accompany the report pursuant to 18 U.S.C. 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOST HOTELS & RESORTS, INC.

August 8, 2018 /S/ BRIAN G. MACNAMARA

Brian G. Macnamara

Senior Vice President,

Corporate Controller

(Principal Accounting Officer and duly authorized officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOST HOTELS & RESORTS, L.P.

By: HOST HOTELS & RESORTS, INC., its general partner

August 8, 2018 /S/ BRIAN G. MACNAMARA  
Brian G. Macnamara

Senior Vice President,

Corporate Controller of Host Hotels & Resorts, Inc.,

general partner of Host Hotels & Resorts, L.P.

(Principal Accounting Officer and duly authorized officer)