SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the Year Ended December 31, 2004 **Commission file number 001-14625**

HOST MARRIOTT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Maryland	**53-0085950**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**
6903 Rockledge Drive, Suite 1500, Bethesda, Maryland	**20817**
(Address of Principal Executive Offices)	**(Zip Code)**

(240) 744-1000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (352,481,808 shares outstanding as of February 15, 2005) and Purchase share rights for Series A Junior Participating Preferred Stock, $.01 par value	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange Philadelphia Stock Exchange
Class B Preferred Stock, $.01 par value (4,000,000 shares outstanding as of February 15, 2005)	New York Stock Exchange
Class C Preferred Stock, $.01 par value (5,980,000 shares outstanding as of February 15, 2005)	New York Stock Exchange
Class E Preferred Stock, $.01 par value (4,034,300 shares outstanding as of February 15, 2005)	New York Stock Exchange

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of shares of common stock held by non-affiliates of the registrant as of June 18, 2004 (based on the closing sale price as reported on the New York Stock Exchange on June 18, 2004) was approximately $4,298,113,000.

Documents Incorporated by Reference

Portions of the registrant's proxy statement for the annual meeting of stockholders to be held in 2005 are incorporated by reference into Part III of this Form 10-K. We expect to file our proxy statement by April 10, 2005.

Items 1 & 2 Business and Properties

Host Marriott Corporation is a Maryland corporation and operates as a self-managed and self-administered real estate investment trust, or REIT. Host Marriott Corporation owns properties and conducts operations through Host Marriott, LP, a Delaware limited partnership of which Host Marriott Corporation is the sole general partner and in which it holds 94% of the partnership interests. In this report, we use the terms "we" or "our" to refer to Host Marriott Corporation and Host Marriott, L.P. together, unless the context indicates otherwise. We also use the term "HMC" to specifically refer to Host Marriott Corporation and the terms "operating partnership" or "Host LP" to refer to Host Marriott, L.P. (and its consolidated subsidiaries), in cases where it is important to distinguish between HMC and Host LP.

As of February 28, 2005, our lodging portfolio consisted of 107 upper-upscale and luxury full-service hotels containing approximately 55,000 rooms. Our portfolio is geographically diverse with hotels in most of the major metropolitan areas in 26 states, Washington, D.C., Toronto and Calgary, Canada and Mexico City, Mexico. Our locations include central business districts of major cities, near airports and resort/conference locations.

The address of our principal executive office is 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland, 20817. Our phone number is 240-744-1000. Our Internet website address is www.hostmarriott.com.

We make available free of charge, on our Internet website, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

In addition, at the Investor Information section of our website, we have a Corporate Governance page that includes, among other things, copies of our Code of Business Conduct and Conflicts of Interest Policy for directors, our Code of Business Conduct and Ethics for employees, our Corporate Governance Guidelines and the charters for each of our standing committees of our Board of Directors, which are: the Audit Committee, the Compensation Policy Committee and the Nominating and Corporate Governance Committee. Copies of these charters and policies are also available in print to stockholders upon request.

The Lodging Industry Overview

The lodging industry in the United States consists of both private and public entities which operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants:

- Owner—these participants own the hotel and enter into an agreement for an independent third party to manage the hotel. These properties may be branded and operated under the manager's brand or branded under a franchise agreement and operated by the franchisee or by an independent hotel manager. The properties may also be operated as an independent hotel (unaffiliated with any brand) by an independent hotel manager.
- Owner/Manager—these participants own the hotel and operate the property with their own management team. These properties may be branded under a franchise agreement, operated as an independent hotel (unaffiliated with any brand) or operated under the owner's brand. However, REITs are restricted from managing hotels under applicable REIT laws.
- Franchisor—these participants own a brand or brands and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with brand recognition, marketing support and centralized reservation systems.
- Franchisor/Manager—these participants own a brand or brands and also operate hotels on behalf of the hotel owner or franchisee.
- Manager—these participants operate hotels on behalf of the hotel owner, but do not, themselves, own a brand. The hotel may be operated under a franchise agreement or as an independent hotel (unaffiliated with any brand).

The hotel manager is responsible for the day-to-day operation of the hotels, including the employment of hotel staff, the determination of room rates, the development of sales and marketing plans, the preparation of operating and capital expenditure budgets and the preparation of financial reports for the owner. They typically receive fees based on the revenues and profitability of the hotel.

The lodging industry is highly competitive. Competition for a given hotel is based primarily on the brand affiliation, guest facilities, amenities, level of service, quality of accommodations, location and room rates. Competition is often specific to the individual markets in which the properties are located. Catering to a wide variety of tastes and needs, the lodging industry is broadly segmented into six groups: luxury, upper-upscale, upscale, midscale (with and without food and beverage service) and economy. Most of our hotels operate in urban and resort markets either as luxury properties, under such brand names as Ritz-Carlton®, Fairmont® and Four Seasons®, or as upper-upscale properties, under such brand names as Marriott®, Hyatt®, Westin® and Hilton®.[1]

Our industry is influenced by the cyclical relationship between the supply of, and demand for, hotel rooms.

Lodging demand growth typically is related to the vitality of the overall economy in addition to local market factors that stimulate travel to specific destinations. Extended periods of strong demand growth tend to encourage new development. The rate of supply growth may be influenced by a number of factors, including availability of capital, interest rates, construction costs and unique market considerations. The relatively long lead-time required to complete development of hotels can result in increasing demand, with no new supply, as well as new supply entering the market when demand is decreasing, both of which have the effect of increasing the volatility of the cyclical behavior of the industry. The development of upper-upscale and luxury hotels in urban and resort/conference locations frequently requires the longest lead-time.

Properties in the upper-upscale segment of the lodging industry benefited from a favorable imbalance between supply and demand during the early 1990's, driven in part by low construction levels and high gross domestic product, or GDP growth. From 1998 through 2000, supply moderately outpaced demand, leading to slight declines in occupancy levels. However, the growth of hotel revenues remained very strong as occupancy declines were more than offset by increases in average daily rate during that period. In 2001, the already weakening economy was significantly affected by the September 11 terrorist attacks. From 2001 through 2003, demand slowed significantly due to the threat of further terrorist attacks, the war in Iraq and the continuation of a weak economy, all of which combined to reduce both occupancy and average daily rates. As the economic recovery strengthened, demand growth began to accelerate early in 2004 initially leading to increases in occupancy and later to modest improvements in average room rates. We expect the rate of supply growth, which has declined significantly since 2000, to continue to be relatively low for at least the next two years due to the long permitting, approval and development lead-times.

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(1) This annual report contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees, has or will have any responsibility or liability for any information contained in this annual report.

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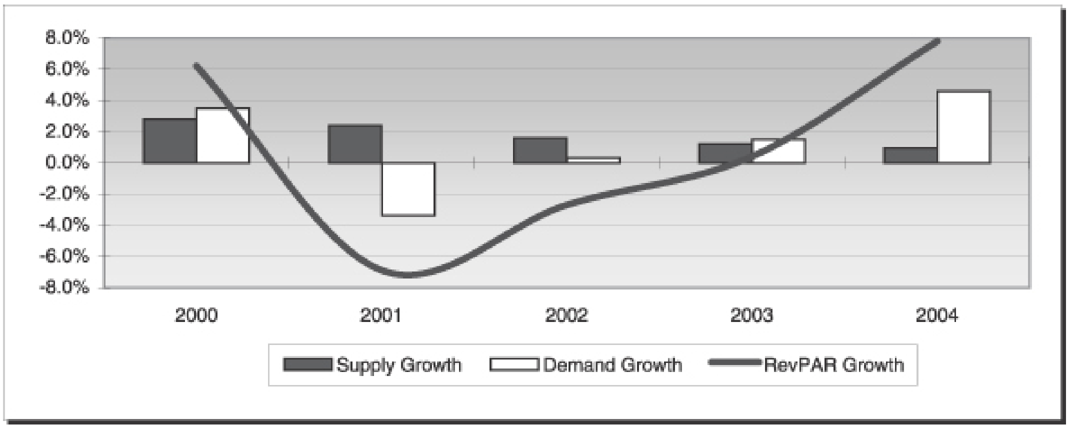
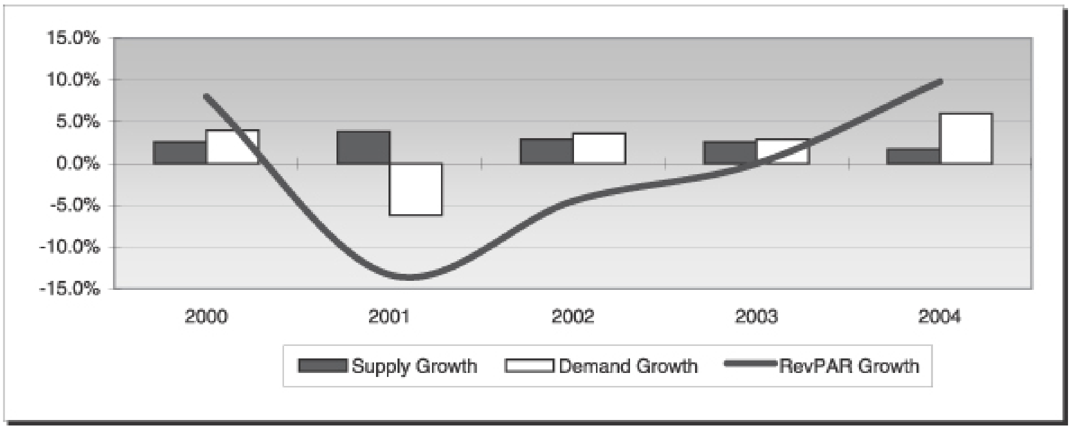
The charts below detail the supply demand and RevPAR growth for the U.S. lodging industry and for the luxury and upper-upscale segment for 2000 to 2004 based on data provided by Smith Travel Research. RevPAR is defined as the product of the average daily room rate charged and the average daily occupancy achieved and is a commonly used measure of hotel operations. For more information on RevPAR and a discussion of how we use this measure, see "Management's Discussion and Analysis of Operations and Financial Condition—Overview."

U.S. Lodging Industry Supply, Demand and RevPAR Growth



Luxury and Upper-Upscale Supply, Demand and RevPAR Growth



Business Strategy

Our primary business objective is to provide superior total returns to our stockholders through a combination of appreciation in asset values and growth in earnings and dividends. In order to achieve this objective we seek to:

- maximize the value of our existing portfolio through aggressive asset management which includes working with the managers of our hotels to continue to increase revenues while minimizing operating costs and completing selective capital improvements designed to increase profitability;

- acquire upper-upscale and luxury hotels generally in urban and resort/conference locations that are operated by leading management companies;
- maintain a capital structure and liquidity profile with an appropriate balance of debt and equity, including maintaining the amount of floating rate debt in the 15% to 30% range, and which provides flexibility given the inherent volatility in the lodging industry;
- reduce our leverage, over time, to achieve an EBITDA-to-interest coverage ratio greater than 3.0x under our senior notes indenture and seek to maintain a balanced maturity schedule with an average maturity of no less than five years; and
- dispose of non-core assets, such as older assets with significant capital needs, assets that are at a competitive risk given potential new supply or assets in slower-growth markets.

Asset Management. We believe that we can maximize the value of our existing portfolio through aggressive asset management. We are the largest REIT owner of upper-upscale and luxury properties in the United States and our hotels are managed by many of the top brands in the industry. The size and composition of our portfolio and our experience with multiple brands allows us to benchmark similar hotels and identify best practices, value enhancement opportunities and efficiencies that can be communicated to our managers. We continue to evaluate key performance indicators to ensure an appropriate level of assistance is provided to our managers to maximize opportunities at each asset. Areas of focus include enhancing revenue management for rooms, food and beverage and other services, reducing operating costs and identifying operating efficiencies, all of which improve the long-term profitability of the hotel.

Our asset management and development departments work closely with our managers in overseeing capital expenditure budgets to ensure that our hotels are in superior physical condition, highly competitive in the market and compliant with brand standards. We also work with our managers to ensure that renewal and replacement expenditures are efficiently spent in order to maximize the profitability of the hotel. In addition to best practices driving the profitability of our hotels we pursue opportunities to enhance asset value by completing selective capital improvements outside the scope of the typical renewal and replacement capital expenditures. These capital improvements may include converting underutilized space to alternative uses (including additional meeting space, timeshare or condominium units), building additional meeting space or exhibit halls, and installing energy management systems and highly efficient water recycling systems. When appropriate, we also consider the complete repositioning of a hotel in a given market, which often includes a complete renovation of guest rooms, meeting rooms and public space modifications. Other value enhancement opportunities will include utilizing underdeveloped land or buildings for other real estate investments, such as timeshare and condominium units, to maximize the value for each of our assets.

Acquisitions. Our acquisition strategy focuses on upper-upscale and luxury hotels. We continue to believe there will be opportunities to acquire these hotels at attractive multiples of cash flow and at discounts to replacement cost. Our acquisition strategy continues to focus on:

- properties with unique locations in markets with high barriers to entry for prospective competitors;
- properties operated under premium brand names, such as Marriott®, Ritz-Carlton®, Four Seasons®, Fairmont®, Hilton®, Hyatt® and Westin®;
- larger hotels that are consistent with our portfolio objectives and that may require investment on a scale that limits the number of potential buyers;
- underperforming hotels whose operations can be enhanced by conversion to a higher quality brand and/or by upgrading or expanding the existing facilities; and
- acquisitions through various structures, including transactions involving portfolios, single assets and joint ventures.

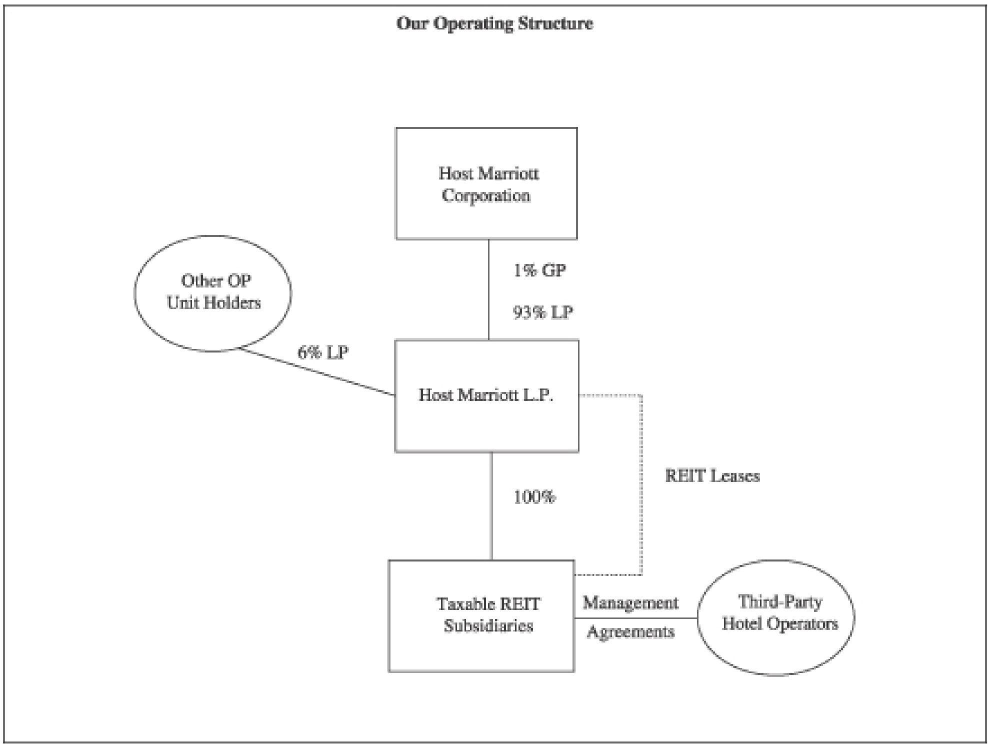
Prior to 2003, our acquisitions were limited by the lack of suitable targets that would complement our portfolio and provide adequate returns, as well as a limited ability to raise capital due to weak investment markets. Consequently, our activity was primarily focused on acquiring the interests of limited or joint venture partners and consolidating our ownership of assets already included in our portfolio. When the capital markets strengthened late in 2003, suitable single asset and portfolio acquisition opportunities became available. Since that time, we acquired four properties, including two resorts in Hawaii, the Hyatt Regency Maui Resort and Spa and the Fairmont Kea Lani Maui.

We have not acquired hotels outside of the United States in recent years due to the difficulty in identifying opportunities that meet our return criteria. However, we intend to continue to evaluate acquisition opportunities in international locations, and will pursue these only when we believe they will offer satisfactory returns after adjustments for currency and country-related risks.

Dispositions. During 2004 and 2003, and continuing into the first quarter of 2005, we have taken advantage of market conditions in order to sell certain non-core assets at favorable prices. During this period we sold 21 hotels, including the recently completed sale of four properties in January 2005. Proceeds from these dispositions have been, or will be, used to repay debt, fund acquisitions, fund return on investment, or ROI, projects, or for general corporate purposes. Generally these properties have been in smaller markets where we believe the potential for growth is slower, or where the properties required substantial capital investments in order to generate the returns we require while meeting our high quality standards.

Operating Structure

Our operating structure is as follows:



HMC was formed in 1998 as a Maryland corporation in connection with our reorganization to qualify as a REIT and, at that time, we reorganized our business and contributed our hotels and certain other assets to the operating partnership and its subsidiaries. As a result of this reorganization, HMC became the sole general partner of Host LP. For each share of HMC common stock, the operating partnership has issued one unit of operating partnership interest, or OP unit, to HMC. When distinguishing between HMC and Host LP, the primary difference is the approximately 6% of the partnership interests of Host LP not held by us as of February 28, 2005.

All of our assets are owned by us or through our subsidiaries, all of which are general or limited partnerships or limited liability companies. The OP units owned by holders other than us are redeemable at the option of the holders, beginning one year after the date of issuance of the holder's OP units. Upon redemption of an OP unit, a holder may receive cash from us in an amount equal to the market value of one share of HMC common stock. We have the right, however, to acquire any OP unit offered for redemption directly from the holder in exchange for one share of HMC common stock, instead of a cash redemption.

As a REIT, certain tax laws limit the amount of "non-qualifying" income that HMC can earn, including income derived directly from the operation of hotels. As a result, we lease substantially all of our properties to a subsidiary designated as a taxable REIT subsidiary for Federal income tax purposes or to third party lessees. The lessees enter into agreements with third parties to manage the operations of the hotels. Taxable REIT subsidiaries may hold other assets that engage in other activities that produce non-qualifying income such as the development of timeshare or condominium units, subject to certain restrictions. Unlike other subsidiaries of a REIT, taxable income of a taxable REIT subsidiary is subject to Federal and state income taxes.

Lodging Properties Portfolio

Overview. Our lodging portfolio consists primarily of 107 upper-upscale and luxury hotels containing approximately 55,000 rooms as of February 28, 2005. It is geographically diverse within North America, with hotels in most of the major metropolitan areas in 26 states, Washington, D.C., Toronto and Calgary, Canada and Mexico City, Mexico. We believe that the broader brand name recognition and resources of the premium brands our properties are operated under help generate revenues and drive increased profitability over the long-term. Our locations include central business districts of major cities, near airports and resort/conference locations, which because of their locations, typically benefit from significant barriers to entry by competitors. Historically, our properties in urban and resort/conference locations have achieved higher RevPAR than similar properties in suburban locations. Our hotels have an average of approximately 512 rooms per hotel. Thirty-five, or 33% of our hotels, have more than 500 rooms and nine of our hotels exceed 1,000 rooms. Our hotels typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, exercise facilities or spas, gift shops and parking facilities, the combination of which enable them to serve business, leisure and group travelers. The average age of our properties is 20 years, although most of the properties have benefited from substantial renovations or major additions, as well as scheduled renewal and replacement and other capital improvements.

The following chart details our portfolio by brand as of February 28, 2005:

Brand	Number of Hotels	Rooms
Marriott	80	43,175
Ritz-Carlton	10	3,826
Hyatt	6	3,522
Swissôtel	2	1,127
Hilton	2	678
Four Seasons	2	608
Fairmont	1	450
Westin	1	365
Other brands	3	938
	107	54,689

Capital Expenditures. In order to maximize the value of our portfolio and to maintain our high standards, as well as those of our managers, we spend a considerable amount of time in reviewing potential capital expenditures at our properties, including renewals and replacements, expansions, repositionings and other capital investments. Our capital expenditures generally fall into two broad categories, renewal and replacement expenditures and repositioning/return on investment (or "ROI") projects.

Renewal and Replacement Expenditures. To maintain the overall quality of our lodging properties, we assess annually the need for refurbishments, replacements and capital improvements. Typically, room refurbishments occur at intervals of approximately seven years, based on an annual review of the condition of each property. However, the timing of refurbishments may vary based on the type of property and equipment being replaced and are generally divided into the following types: soft goods, hard goods and infrastructure. Soft goods include items such as carpeting, bed spreads, curtains and wall vinyl and may require more frequent updates to maintain brand quality standards. Hard goods include items such as dressers, desks, couches, restaurant chairs and tables and are generally not replaced as frequently. Infrastructure includes the physical plant of the hotel, including the roof, elevators, façade, fire systems, etc., which are regularly maintained and then replaced at the end of their useful lives. The management agreements for the majority of our properties require us to escrow 5% of each hotel's annual gross revenues for refurbishments, and on average, we spend approximately $180 million to $220 million on replacements and refurbishments of soft and hard goods each year. In addition to amounts required to be escrowed under the management agreement, we will fund infrastructure improvements and, on average, spend approximately $20 million to $30 million annually, generally leading to total renewal and replacement capital expenditures of $200 million to $250 million on an annual basis. All capital expenditure decisions, however, take into account the economic environment and our cash requirements, and as a result, we will occasionally spend more or less than these amounts.

Repositioning/Return on Investment Projects. We have also undertaken several projects over the past two years which are designed to increase the ROI for our portfolio. In certain instances, these repositioning or ROI projects have coincided with the timing of regular maintenance cycles at the properties where we have used the opportunity to improve and upgrade the hotel, such as at the New York Marriott Marquis where we redesigned and expanded the food and beverage operations. Other ROI projects are designed to take advantage of changing market conditions and the superior location of our properties. For example, we commenced construction of an extensive renovation and repositioning at the Newport Beach Marriott, which is expected to cost approximately $60 million. The renovation will include the addition of a spa, 20 new luxury suites, redesigned guestrooms, a new restaurant concept and updated meeting space.

Foreign Operations. We currently own four Canadian properties and one Mexican property containing a total of 1,953 rooms. During each of 2004, 2003 and 2002, approximately 3% of our revenues were attributed to foreign operations, while the remaining 97% were attributed to our domestic properties.

Competition. The lodging industry is highly competitive, and over the past decade there has been a proliferation of the number of brands in the lodging industry. Competition is often specific to individual markets and is based on a number of factors, including location, brand, guest facilities, amenities, price and service, as well as property condition. Our competition includes hotels operated under brands in the upper-upscale and luxury full-service segments, as well as hotels operated under upscale or other lower tier brands in many locations. Many management contracts do not have restrictions on the ability of management companies to convert, franchise or develop other hotel properties in our markets. As a result, our hotels in a given market often compete with other hotels which our managers may own, invest in, manage or franchise.

We believe that our properties enjoy competitive advantages associated with their operations under the Marriott®, Ritz-Carlton®, Fairmont®, Four Seasons®, Hyatt®, Westin® and Hilton® hotel brand systems. The national marketing programs and reservation systems of these brands, combined with the strong management systems and expertise they provide, should enable our properties to perform favorably in terms of both occupancy and room rates. Each of our managers maintains national reservation systems. In addition, repeat guest business is enhanced by guest reward or guest recognition programs offered by most of these brands.

Seasonality. Our hotel sales have traditionally experienced moderate seasonality, which varies based on the individual hotel property and the region. Additionally, hotel revenues in the fourth quarter typically reflect sixteen weeks of results compared to twelve weeks for each of the first three quarters of the fiscal year for our Marriott-managed hotels. For our non-Marriott managed hotels, the first quarter includes two months of operations, the second and third quarters include three months of operations and the fourth quarter includes four months of operations. See "Management's Discussion and Analysis of Results of Operations and Financial

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Condition—Reporting Periods" for more information on our fiscal calendar. Hotel sales have historically averaged 22%, 25%, 21% and 32% for the first, second, third and fourth quarters, respectively.

Hotel Properties. The following table sets forth the location and number of rooms of our 107 full-service hotels as of February 28, 2005. Each hotel is operated as a Marriott brand hotel unless otherwise indicated by its name.

Location	Rooms
Arizona	
Mountain Shadows Resort(3)	337
Scottsdale Suites	251
The Ritz-Carlton, Phoenix	281
Scottsdale Marriott at McDowell Mountains	270
California	
Coronado Island Resort(1)	300
Costa Mesa Suites	253
Desert Springs Resort and Spa	884
Hyatt Regency, Burlingame	793
Manhattan Beach(1)	385
Marina Beach(1)	370
Newport Beach	532
Newport Beach Suites	254
Sacramento Host Airport	89
San Diego Hotel and Marina(1)(2)	1,362
San Diego Mission Valley(2)	350
San Francisco Airport	685
San Francisco Fisherman's Wharf	285
San Francisco Moscone Center(1)	1,498
San Ramon(1)	368
Santa Clara(1)	755
The Ritz-Carlton, Marina del Rey(1)	304
The Ritz-Carlton, San Francisco	336
Colorado	
Denver Southeast(1)	475
Denver Tech Center	628
Denver West(1)	305
Connecticut	
Hartford/Rocky Hill(1)	251
Florida	
Fort Lauderdale Marina	579
Harbor Beach Resort(1)(2)	637
Miami Airport(1)	772
Miami Biscayne Bay(1)	601
Orlando World Center	2,000
Singer Island Hilton	223
Tampa Airport(1)	296
Tampa Waterside	717
The Ritz-Carlton, Amelia Island	444
The Ritz-Carlton, Naples	463
The Ritz-Carlton, Naples Golf Resort	295
Georgia	
Atlanta Marquis	1,675
Atlanta Midtown Suites(1)	254
Atlanta Perimeter(1)	400
Four Seasons, Atlanta	244
Grand Hyatt, Atlanta	438
JW Marriott Hotel at Lenox	371
Westin Buckhead	365
The Ritz-Carlton, Atlanta	444
The Ritz-Carlton, Buckhead	553
Hawaii	
Fairmont Kea Lani, Maui	450
Hyatt Regency Maui Resort and Spa	806
Illinois	
Chicago/Deerfield Suites	248
Chicago/Downers Grove Suites	254
Chicago/Downtown Courtyard	337
Chicago Embassy Suites Downtown Lakefront	455
Chicago O'Hare	681
Chicago O'Hare Suites(1)	256
Swissôtel, Chicago	632
Indiana	
South Bend(1)	298
Louisiana	
New Orleans	1,290
Maryland	
Gaithersburg/Washingtonian Center	284
Massachusetts	
Boston/Newton	430
Boston Copley Place	1,139
Hyatt Regency, Boston	498
Hyatt Regency, Cambridge	469
Michigan	
The Ritz-Carlton, Dearborn	308
Detroit Livonia	224
Minnesota	
Minneapolis City Center	583
Minneapolis Southwest(2)	321
Missouri	
Kansas City Airport(1)	382
New Hampshire	
Nashua	245

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Location	Rooms
New Jersey	
Hanover	353
Newark Airport(1)	591
Park Ridge(1)	289
New York	
Albany(2)	359
New York Financial Center	498
New York Marquis(1)	1,944
Swissôtel, The Drake	495
North Carolina	
Charlotte Executive Park	297
Greensboro/Highpoint(1)	299
Raleigh Crabtree Valley	375
Research Triangle Park	225
Ohio	
Dayton	399
Oregon	
Portland	503
Pennsylvania	
Four Seasons, Philadelphia	364
Philadelphia Convention Center (2)	1,408
Philadelphia Airport(1)	419
Tennessee	
Memphis	593
Texas	
Dallas Quorum(1)	548
Houston Airport(1)	565

Location	Rooms
Texas (continued)	
Houston Medical Center(1)	386
JW Marriott Houston	514
San Antonio Rivercenter(1)	1,001
San Antonio Riverwalk(1)	512
Virginia	
Dulles Airport(1)	368
Fairview Park	395
Hyatt Regency, Reston	518
Key Bridge(1)	583
Pentagon City Residence Inn	299
The Ritz-Carlton, Tysons Corner(1)	398
Washington Dulles Suites	253
Westfields	336
Washington	
Seattle SeaTac Airport	459
Washington, D.C.	
JW Marriott, Washington, D.C.	772
Washington Metro Center	456
Canada	
Calgary	384
Toronto Airport(2)	424
Toronto Eaton Center(1)	459
Toronto Delta Meadowvale	374
Mexico	
JW Marriott, Mexico City(2)	312
Total	54,689

(1) The land on which this hotel is built is leased from a third party under one or more long-term lease agreements.
(2) This property is not wholly owned.
(3) On September 3, 2004, we temporarily closed this hotel.

Other Real Estate Investments

In addition to our 107 full-service hotels, we maintain investments in a joint venture and partnerships that in the aggregate own two full-service hotels, 120 limited-service hotels, the Tiburon Golf Club, and other investments. Typically, we manage these investments and conduct business through a combination of general and limited partnership and limited liability company interests. As of December 31, 2004, the combined balance sheet of these investments included approximately $1.6 billion in assets and $.9 billion in debt, principally first mortgages on hotel properties, senior notes secured by the ownership interests in the partnership and mezzanine debt. All of the debt of these entities is non-recourse to us and our subsidiaries.

Further, the majority of our investment balance is the result of our interest in CBM Joint Venture LLC, or CBM Joint Venture. We and Marriott International, Inc., or Marriott International, each currently own a 50% interest in the CBM Joint Venture, which owns 120 Courtyard by Marriott properties. On

December 15, 2004, we announced the pending sale of 85% of our interest in the CBM Joint Venture for approximately $92 million. Under the terms of the agreements, we have the right to have our remaining interest redeemed under certain conditions between 2007 and 2009. The transaction is expected to close in March 2005.

We also have a leasehold interest in 53 Courtyard by Marriott properties and 18 Residence Inns, which, in a series of related transactions, were sold to Hospitality Properties Trust and leased back prior to 1997. These properties were subleased in 1998 to Barceló Crestline Corporation, formerly Crestline Capital Corporation ("Crestline"). The initial term of these leases expire between 2010 and 2012 and are renewable at our option. Rent payable under the subleases is guaranteed by Crestline up to a maximum of $30 million. At the expiration of these leases, Hospitality Properties Trust will return our initial security deposit of approximately $67 million.

For a more detailed discussion of our other real estate investments, including a summary of the outstanding debt balances of our affiliates, see "Management's Discussion and Analysis of Results of Operations and Financial Condition—Investments in Affiliates" and Notes 3 and 7 to the annual consolidated financial statements— "Investments in Affiliates" and "Leases."

Environmental and Regulatory Matters

Under various Federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. These laws may impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, certain environmental laws and common law principles could be used to impose liability for release of asbestos-containing materials, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require corrective or other expenditures. In connection with our current or prior ownership or operation of hotels, we may be potentially liable for various environmental costs or liabilities. Although we are currently not aware of any material environmental claims pending or threatened against us, we can offer no assurance that a material environmental claim will not be asserted against us in the future.

Material Agreements

Substantially all of our hotels are managed by third parties pursuant to management agreements with our lessee subsidiaries. The initial term of our management agreements is generally 15 to 20 years with one or more renewal terms. Our agreements with our managers typically include the terms described below. As of December 31, 2004, no individual hotel's sales represent more than 6% of our total hotel sales.

- *General.* Under each management agreement, the manager provides comprehensive management services to the applicable lessee.
- *Operational services.* The managers generally have sole responsibility and exclusive authority for all activities necessary for the day-to-day operation of the hotels, including establishing all room rates, processing reservations, procuring inventories, supplies and services, providing periodic inspection and consultation visits to the hotels by the managers' technical and operational experts and promoting and publicizing of the hotels. The manager receives compensation in the form of a base management fee, typically 3%, which is calculated as a percentage of annual gross revenues, and an incentive management fee, which is typically calculated as a percentage (generally 20%) of operating profit, up to certain limits (typically 20% of cumulative operating profit), after the owner has received a priority return on its investment in the hotel.
- *Executive supervision and management services.* The managers provide all managerial and other employees for the hotels, review the operation and maintenance of the hotels, prepare reports, budgets and projections, provide other administrative and accounting support services to the hotels, such as planning and policy services, financial planning, divisional financial services, risk management services, product planning and development, employee staffing and training, corporate executive management, legislative and governmental representation and certain in-house legal services, and protect trademarks, trade-names and service marks. For the majority of our properties, we also have approval rights over the budget, capital expenditures and other matters.

- *Chain services*. The management agreements require the managers to furnish chain services that are generally furnished on a centralized basis. Such services include: (1) the development and operation of certain computer systems and reservation services, (2) regional management and administrative services, regional marketing and sales services, regional training services, manpower development and relocation of regional personnel and (3) such additional central or regional services as may from time to time be more efficiently performed on a regional or group basis rather than at an individual hotel. Costs and expenses incurred in providing these services are generally allocated among all hotels managed by the manager or its affiliates.
- *Working capital and fixed asset supplies*. Our management agreements typically require us to maintain working capital for each hotel and to fund the cost of certain fixed asset supplies (for example, linen, china, glassware, silver and uniforms). We are also responsible for providing funds to meet the cash needs for hotel operations if at any time the funds available from hotel operations are insufficient to meet the financial requirements of the hotels.
- *Furniture, Fixtures and Equipment replacements*. Under the management agreements, we are required to provide to the managers all necessary furniture, fixtures and equipment for the operation of the hotels (including funding any required furniture, fixtures and equipment replacements). The management agreements generally provide that, on an annual basis, the manager will prepare a list of furniture, fixtures and equipment to be acquired and certain routine repairs and maintenance to be performed in the next year and an estimate of the funds that are necessary, which is subject to our review or approval. For purposes of funding the furniture, fixtures and equipment replacements, a specified percentage (typically 5%) of the gross revenues of the hotel is deposited by the manager in an escrow account. However, for 68 of our hotels, we have entered into an agreement with Marriott International to allow us to fund such expenditures directly as incurred from one account which we control, subject to maintaining a minimum balance of the greater of $26 million, or 30% of total annual specified contributions, rather than escrowing funds at accounts at each hotel.
- *Building alterations, improvements and renewals.* The management agreements require the managers to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of each hotel which we review and approve based on their recommendations and our judgment. In addition to the foregoing, the management agreements generally provide that the manager may propose such changes, alterations and improvements to the hotel as are required, in the manager’s reasonable judgment, to keep the hotel in a competitive, efficient and economical operating condition consistent with the manager’s brand standards, over which we also have approval authority.
- *Service marks.* During the term of the management agreements, the service mark, symbols and logos used by the manager may be used in the operation of the hotel. Any right to use the service marks, logos and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the applicable management agreement.
- *Sale of the hotel.* Most of the management agreements limit our ability to sell, lease or otherwise transfer the hotels by requiring that the transferee assume the related management agreements and meet specified other conditions, including the condition that the transferee not be a competitor of the manager.
- *Termination on sale.* While most of our management agreements are not terminable prior to their full term in connection with the sale of hotels, we have negotiated rights to terminate management agreements in connection with the sale of Marriott-branded hotels within certain limitations, including a remaining pool of 36 hotels, 73% of which (as measured by EBITDA) may be sold free and clear of their existing management agreements over a period of time without the payment of a termination fee.
- *Performance Termination.* The majority of our management agreements provide for termination rights in the case of a manager’s failure to meet certain financial performance criteria, generally a set return on

the owner's investment. Similarly, the majority of our management agreements condition the manager's right to renew or extend the term upon satisfaction of certain financial performance criteria.

Employees

On February 28, 2005, we had 192 employees, including approximately 30 employees at the Sacramento Host Airport hotel. Fourteen of our employees at the Sacramento Host Airport hotel are covered by a collective bargaining agreement that is subject to review and renewal on a regular basis. Employees at our other hotels are employed by our management companies.

Certain of our third-party managed hotels also are covered by collective bargaining agreements that are subject to review and renewal on a regular basis. We believe that we and our managers generally have good relations with labor unions at our hotels. We and our managers have not experienced any material business interruptions as a result of labor disputes.

Investment and Other Policies

The following is a discussion of our policies with respect to investments, financing, lending and certain other activities. Our policies are determined by HMC's Board of Directors and may be amended or revised from time to time at their discretion, without notice to or approval by our security holders. We cannot assure you that our objectives set forth in these policies will be attained. We are restricted by REIT laws in performing some business activities. See "Risk Factors—Applicable REIT Laws May Restrict Certain Business Activities."

Investment Policies

Investments in Real Estate or Interests in Real Estate. Our investment objective is to provide superior total returns to our stockholders through a combination of appreciation in asset values and growth in earnings and dividends. In order to achieve this objective we seek to:

- maximize the value of our existing portfolio by focusing on selectively improving and expanding our hotels and, when appropriate, pursuing alternate real estate uses;
- acquire additional existing and newly developed upper-upscale and luxury full-service hotels in targeted markets (primarily focusing on downtown hotels in core business districts in major metropolitan markets and resort/conference locations);
- complete our current development and expansion program, and selectively develop and construct upper-upscale and luxury full-service hotels; and
- recycle capital through the sale of non-core assets.

In addition to wholly owned assets, we also may participate with other entities in property ownership through joint ventures, partnerships or other types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness may be incurred in connection with acquiring investments. Any such financing or indebtedness will have priority over our equity interest in such property.

Investments in Real Estate Mortgages. While we will emphasize equity real estate investments, we may, at our discretion, invest in mortgages and other similar interests. We do not intend to invest to a significant extent in mortgages or deeds of trust, but may acquire mortgages as a strategy for acquiring ownership of a property or the economic equivalent thereof. In addition, we may invest in mortgage-related securities and/or may seek to issue securities representing interests in such mortgage-related securities as a method of raising additional funds.

Securities of, or Interests in, Persons Primarily Engaged in Real Estate Activities and Other Issuers. We also may invest in securities of other entities engaged in real estate activities or invest in securities of other issuers, including for the purpose of exercising control over such entities. We may acquire all or substantially all of the securities or assets of other REITs or similar entities where such investments would be consistent with our investment policies. No such investments will be made, however, unless the Board of Directors determines that the proposed investment would not cause either Host LP or HMC to be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Dispositions

Generally, we will consider dispositions of properties or ownership interests if we believe that the sale price of a property would exceed the hold value of the property, taking into consideration both the current and anticipated operating performance of the property, the property's capital expenditure requirements, possible tax consequences of the sale and other circumstances. We are more likely to sell what we consider "non-core" properties that no longer fit within our business strategy of owning upper-upscale and luxury properties in urban and resort/conference locations with relatively high barriers to entry and where further large scale development is limited and where growth prospects appear slower than for our overall portfolio.

Financing Policies

To the extent that the Board of Directors determines to seek additional capital, we may raise such capital through HMC common and preferred equity offerings, OP unit offerings, debt financing (including senior, secured and subordinated debt of Host LP) or retention of cash flow or a combination of these methods.

Debt Financing. Our organizational documents do not contain restrictions on incurring debt; however, the indenture for our senior notes and our existing credit facility does impose limitations on the incurrence of indebtedness. We may, from time to time, reduce our outstanding indebtedness by repurchasing a portion of such outstanding indebtedness, subject to certain restrictions contained in Host LP's partnership agreement and the terms of our outstanding indebtedness. We will, from time to time, re-evaluate our borrowing policies in light of then current economic conditions, relative costs of debt and equity capital, market conditions, market values of properties, growth and acquisition opportunities as well as other factors. Our borrowing policies will also reflect the goals of obtaining an EBITDA-to-interest coverage ratio of 3.0x or greater (under our senior notes indenture) and having debt consisting of 15% to 30% variable rate debt and a balanced maturity schedule with an average maturity of no less than five years. Consequently, our financing policy is subject to modification and change. We may waive or modify our borrowing policy without notice to, or vote of, the holders of any of our securities.

In the future, we may seek to extend, expand, reduce or renew our existing credit facility, or obtain new credit facilities or lines of credit for the purpose of making acquisitions or capital improvements or providing working capital or meeting the taxable income distribution requirements for REITs under the Internal Revenue Code. We have issued in the past, and may in the future, issue securities senior to our common shares, including preferred shares and debt securities (either of which may be convertible into common shares or OP units or may be accompanied by warrants to purchase common shares or OP units).

We have not established any limit on the number or amount of mortgages that may be placed on any single hotel or on our portfolio as a whole, although one of our current objectives is to reduce our reliance on secured indebtedness.

HMC Equity Offerings and Host LP Unit Offerings. We may seek to raise additional capital through equity offerings by HMC or OP unit offerings by Host LP. HMC's charter provides the authority to issue up to 750 million shares of common stock and 50 million shares of preferred stock. The net proceeds of all equity capital raised by HMC will be contributed to Host LP in exchange for OP units, which will dilute the percentage ownership interest of Host LP's limited outside (or third party) partners. Conversely, OP unit offerings by Host LP will dilute the percentage ownership interest of HMC in Host LP. We may, under certain circumstances, purchase shares of HMC common stock in the open market or purchase HMC common stock and Host LP OP units in private transactions with our stockholders.

Retention of Cash Flow. Financing through the retention of cash flow is limited due to the REIT requirement that at least 90% of our taxable income must be distributed to our stockholders. Our taxable income may also differ significantly from our reported cash flows.

Lending Policies

We may consider offering purchase money financing in connection with the sale of a hotel where the provision of such financing will increase the value we receive for the property sold.

Reporting Policies

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended. Pursuant to these requirements, we will file periodic reports, proxy statements and other information, including certified financial statements, with the Securities and Exchange Commission.

Policies With Respect to Other Activities

We may, but do not presently intend to, make investments other than as previously described. We have authority to offer our securities, including in exchange for property and may engage in such activities in the future. We also may make loans to joint ventures in which we may participate in the future to meet working capital needs. We do not intend to engage in trading, underwriting, agency distribution or sale of securities of other issuers.

Item 3. Legal Proceedings

Legal Proceedings

We believe all of the lawsuits in which we are a defendant, including the following lawsuits, are without merit and we intend to defend vigorously against such claims; however, no assurance can be given as to the outcome of any of the lawsuits. We believe that the final resolution of these lawsuits will not have a material adverse effect on our financial condition.

Accelerated High Yield Growth Fund, Ltd., et al. v. HMC Hotel Properties II Limited Partnership et al., C.A. No. 18254NC. This litigation represents the last in a series of cases that began in 1996 in response to a tender offer by our predecessor for interests in the Marriott Hotel Properties II Limited Partnership, or MHP II, and expanded to cover the 1998 roll-up of MHP II into Host LP as part of HMC’s conversion to a REIT.

In late 2001, we reached an agreement to settle two MHP II-related class actions—one in Florida state court, the other in Delaware state court—in which we agreed to pay $12,000 per limited partnership unit of MHP II. The settlement included all claims arising out of both the 1996 tender offer and the REIT conversion. MacKenzie Patterson Special Fund 2, L.P., or MacKenzie Patterson, elected to opt out of this settlement with respect to its limited partnership units.

On August 23, 2000, MacKenzie Patterson and 10 other unit holders (together, plaintiffs hold 28 units) filed this lawsuit in Delaware Chancery Court against us alleging breach of contract, fraud, and conversion in the MHP II roll-up. Plaintiffs allege that our acquisition of MHP II violated the partnership agreement and that the general partner breached its fiduciary duties by allowing the roll-up to occur. Plaintiffs are seeking unspecified damages. The Court has set a discovery cut-off of April 30, 2005 and has scheduled trial to begin on July 12, 2005.

Joseph S. Roth et al. v. MOHS Corporation et al, Case No. 00CH14500 (“O’Hare Suites”). On October 5, 2000, Joseph S. Roth and Robert M. Niedelman, filed a putative class action lawsuit in the Circuit Court of Cook County, Illinois, Chancery Division, against us, Marriott International, and MOHS Corporation (one of our subsidiaries and a former general partner of O'Hare Suites). On July 2, 2003, the court ruled on plaintiffs' motion for class certification, certifying a 256-person class on plaintiffs' contract and breach of fiduciary duty claims, but denying certification on their six tort claims (which included unjust enrichment, fraud, negligence, negligent misrepresentation, and conspiracy to defraud).

The certified class of plaintiffs consists of 256 limited partners who owned units in Mutual Benefit Marriott Chicago Suites Hotel Partners, L.P. as of the date of the roll-up of the partnership into Host LP on December 30, 1998. Plaintiffs allege that we improperly paid incentive management fees to the hotel manager in 1997 and 1998, which resulted in an inadequate appraised value for their limited partner units in connection with the acquisition of O'Hare Suites during HMC's conversion to a REIT, and have sought damages of approximately $17 million.

On June 23, 2004, we reached a preliminary agreement with plaintiffs to settle the case for $2.5 million (including attorneys' fees). We subsequently executed a more formal settlement agreement on September 27, 2004, and the Circuit Court entered an order preliminarily approving settlement on October 13, 2004. On October 15, 2004, counsel to the class action plaintiffs mailed notice of the proposed settlement to each class member. No class members elected to opt out of the settlement. At the fairness hearing held on January 10, 2005, the Court issued the Final Order and Judgment. No appeal from the Final Order and Judgment was filed and class counsel distributed the settlement funds to the class members on or about February 16, 2005.

Item 4. Submission of matters to a vote of security holders

None.

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EXECUTIVE OFFICERS

In the following table we set forth certain information regarding those persons currently serving as our executive officers as of February 28, 2005.

Name and Title	Age	Business Experience Prior to Becoming an Executive Officer of the Company
Richard E. Marriott *Chairman of the Board*	66	Richard E. Marriott joined our company in 1965 and has served in various executive capacities. In 1979, Mr. Marriott was elected to the Board of Directors. In 1984, he was elected Executive Vice President and in 1986, he was elected Vice Chairman of the Board of Directors. In 1993, Mr. Marriott was elected Chairman of the Board.
Christopher J. Nassetta *President and Chief Executive Officer and Director*	42	Christopher J. Nassetta joined our company in October 1995 as Executive Vice President and was elected our Chief Operating Officer in 1997. He became our President and Chief Executive Officer in May 2000. Prior to joining us, Mr. Nassetta served as President of Bailey Realty Corporation from 1991 until 1995, and he had previously served as Chief Development Officer and in various other positions with The Oliver Carr Company.
Elizabeth A. Abdoo *Executive Vice President, General Counsel and Secretary*	46	Elizabeth A. Abdoo joined our company in June 2001 as Senior Vice President and General Counsel and became Executive Vice President in February 2003. She was elected Secretary in August 2001. Prior to joining our company, Ms. Abdoo served as Senior Vice President and Assistant General Counsel of Orbital Sciences Corporation from January 2000 to May 2001 and prior to that as Vice President and Assistant General Counsel of Orbital Sciences since 1996.
Minaz Abji *Executive Vice President, Asset Management*	51	Minaz Abji joined our company in 2003 as Executive Vice President, Asset Management. Prior to joining us, Mr. Abji was President of Canadian Hotel Income Properties REIT, a Canadian REIT located in Vancouver, British Columbia where he began working in August 1998. Mr. Abji previously worked for Starwood Hotels and Resorts in Canada as area managing director from May to August 1998. Before that, he was with Westin from 1975 to April 1998, most recently serving as area managing director, until its acquisition by Starwood.
James F. Risoleo *Executive Vice President, Acquisitions and Development*	49	James F. Risoleo joined our company in 1996 as Senior Vice President for Acquisitions, and was elected Executive Vice President in 2000. He is responsible for our development, acquisition and disposition activities. Prior to joining us, Mr. Risoleo served as Vice President of Development for Interstate Hotels Corporation. Before joining Interstate, he was Senior Vice President at Westinghouse Financial Services.
W. Edward Walter *Executive Vice President and Chief Financial Officer*	49	W. Edward Walter joined our company in 1996 as Senior Vice President for Acquisitions, and was elected Treasurer in 1998, Executive Vice President in 2000, Chief Operating Officer in 2001 and Chief Financial Officer in 2003. Prior to joining us, Mr. Walter was a partner with Trammell Crow Residential Company and the President of Bailey Capital Corporation, a real estate firm that focused on tax-exempt real estate investments.

Name and Title	Age	Business Experience Prior to Becoming an Executive Officer of the Company
Richard A. Burton *Senior Vice President, Taxes and General Tax Counsel*	49	Richard A. Burton joined our company in 1996 as Senior Vice President-Taxes and General Tax Counsel. Prior to joining us, Mr. Burton was Senior Tax Counsel at Mobil Oil Corporation, and prior to that was with the law firm of Sutherland, Asbill & Brennan. Mr. Burton also served as Attorney Advisor to the United States Tax Court.
Larry K. Harvey *Senior Vice President and Corporate Controller*	40	Larry K. Harvey rejoined our company in February 2003 as Senior Vice President and Corporate Controller. Prior to joining us, Mr. Harvey served as Chief Financial Officer of Barceló Crestline Corporation, formerly Crestline Capital Corporation, and in various other positions with Crestline from January 1999 to January 2003. From May of 1994 through December of 1998, he served in various accounting positions with us and was the Vice President, Corporate Accounting, prior to the spin-off of Crestline.
Gregory J. Larson *Senior Vice President, Treasurer and Investor Relations*	40	Gregory J. Larson joined our company in October 1993 as Senior Manager of Partnerships and was promoted to Director of Acquisitions in 1996. Mr. Larson joined the Treasury group as Vice President of Corporate Finance in 1998, assumed leadership of the Investor Relations department in 2000, was promoted to Senior Vice President in 2002, and was elected Treasurer in 2005. Mr. Larson is responsible for our Treasury, Corporate Finance and Investor Relations functions. Prior to joining us, Mr. Larson served in various accounting positions with Marriott International, Inc. and worked in public accounting.
Pamela K. Wagoner *Senior Vice President, Human Resources And Leadership Development*	41	Pamela K. Wagoner joined our company in October 2001 as Vice President for Human Resources and became Senior Vice President in February 2003. Prior to joining us, Ms. Wagoner served as Vice President of Human Resources at SAVVIS Communications. From 1998 through August 2000, Ms. Wagoner was Director of Human Resources at Lucent Technologies, Inc. and prior to that was Director of Human Resources at Yurie Systems Inc., since 1996, which was acquired by Lucent.

PART II

Item 5. Market for our common stock and related stockholder matters

Our common stock is listed on the New York Stock Exchange, the Chicago Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange and is traded under the symbol "HMT." The following table sets forth, for the fiscal periods indicated, the high and low closing sales prices per share of our common stock as reported on the New York Stock Exchange Composite Tape.

	High	Low
2003		
1st Quarter	$ 8.15	$ 6.10
2nd Quarter	9.47	6.92
3rd Quarter	10.27	8.67
4th Quarter	12.32	9.95
2004		
1st Quarter	$13.00	$11.95
2nd Quarter	12.91	11.37
3rd Quarter	14.01	12.23
4th Quarter	17.30	13.50

On September 8, 2004, our Board of Directors declared a cash dividend of $0.05 per share on our common stock. We did not declare dividends on our common stock for the period from January 2003 through September 2004. Under the terms of our senior notes indenture and the credit facility, our ability to pay dividends and make other payments is dependent on our ability to satisfy certain financial requirements. See "Management Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources." and "Risk Factors—Financial Risks and Risks of Operation—Our ability to pay dividends may be limited by the terms of our indebtedness."

As of February 15, 2005, there were 27,366 holders of record of our common stock. However, because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe that there are considerably more beneficial holders of our common stock than record holders. As of February 15, 2005, there were 2,334 holders of OP units (in addition to HMC). OP units are redeemable for cash, or, at our election, convertible into HMC common stock.

Our ability to qualify as a REIT under the Internal Revenue Code is facilitated by limiting the number of shares of our stock that a person may own. Our charter provides that, subject to limited exceptions, no person or persons acting as a group may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% in value or in number, whichever is more restrictive, of shares of HMC's outstanding common stock, preferred stock or any other stock, each considered as a separate class or series for this purpose. The Board of Directors has the authority to increase the ownership limit from time to time, but does not have the authority to do so to the extent that after giving effect to such increase, five beneficial owners of capital stock could beneficially own in the aggregate more than 49.5% of the outstanding capital stock. See "Risk Factors—Risks Related to Ownership of HMC: Common Stock—There are limitations on the acquisition of HMC common stock and changes in control."

Item 6. Selected Financial Data

The following table presents certain selected historical financial data which has been derived from audited consolidated financial statements for the five years ended December 31, 2004. The historical information contained in the following table for our 2001 through 2004 primarily represents gross hotel-level revenues and expenses of our properties. During 2000, we owned the hotels but leased them to third-party lessees and, accordingly, during these periods our historical revenues primarily represent rental income generated by our leases.

	Fiscal year				
	2004	2003	2002	2001	2000
	(In millions)				
Income Statement Data:					
Revenues	$3,640	$3,288	$3,345	$3,373	$1,308
Income (loss) from continuing operations	(64)	(238)	(69)	8	105
Income from discontinued operations (1)	64	252	53	43	51
Net income (loss)	—	14	(16)	51	156
Net income (loss) available to common stockholders	(41)	(21)	(51)	19	141
Basic earnings (loss) per common share:					
Income (loss) from continuing operations	(.31)	(.97)	(.39)	(.10)	.41
Income from discontinued operations	.19	.90	.20	.18	.23
Net income (loss)	(.12)	(.07)	(.19)	.08	.64
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations	(.31)	(.97)	(.39)	(.10)	.40
Income from discontinued operations	.19	.90	.20	.18	.23
Net income (loss)	(.12)	(.07)	(.19)	.08	.63
Cash dividends per common share	.05	—	—	.78	.91
Balance Sheet Data:					
Total assets	$8,421	$8,592	$8,316	$8,338	$8,396
Debt (2)	5,523	5,486	5,638	5,602	5,322
Convertible Preferred Securities (2)	—	475	475	475	475
Preferred stock	337	339	339	339	196

(1) Discontinued operations reflects the operations of properties classified as held for sale, the results of operations of properties sold and the gain or loss on those dispositions. Results in 2003 include the gain on disposition and business interruption proceeds of the New York Marriott World Trade Center hotel of approximately $212 million.

(2) We adopted Financial Interpretation No. 46 "Consolidation of Variable Interest Entities" (FIN 46) in 2003. Under FIN 46, our limited purpose trust subsidiary that was formed to issue trust-preferred securities (the "Convertible Preferred Securities") was accounted for on a consolidated basis as of December 31, 2003 since we were the primary beneficiary under FIN 46.

In December 2003, the FASB issued a revision to FIN 46, which we refer to as FIN 46R. Under FIN 46R, we are not the primary beneficiary and we are required to deconsolidate the accounts of the Convertible Preferred Securities Trust (the "Trust"). We adopted the provisions of FIN 46R on January 1, 2004. As a result, we recorded the $492 million in debentures (the "Convertible Subordinated Debentures") issued by the Trust and eliminated the $475 million of Convertible Preferred Securities that were previously classified in the mezzanine section of our consolidated balance sheet prior to January 1, 2004. The difference of $17 million is our investment in the Trust, which is included in "Investments in affiliates" on our consolidated balance sheet. The related dividend payment of approximately $32 million for 2004 is required to be classified as interest expense effective January 1, 2004. We adopted FIN 46R prospectively and, therefore, did not restate prior periods. The adoption of FIN 46R had no effect on our net loss, loss per diluted share or the financial covenants under our senior notes indentures.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements about our business. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Forward Looking Statements" and "Risk Factors" contained elsewhere in this report.

Overview

Structure and Business

We own 107 full-service luxury and upper-upscale hotel properties and, as of February 28, 2005, HMC was the largest hotel REIT in the National Association of Real Estate Investment Trust's composite index. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. HMC operates as a self-managed and self-administered REIT, which means that we are managed by a board of directors and executive officers. We conduct our operations through Host LP and its subsidiaries, which hold substantially all of our assets. HMC is the sole general partner of Host LP and owns approximately 94% of the partnership interests.

Our hotels are operated under brand names that are among the most respected and widely recognized in the lodging industry—including Marriott®, Ritz-Carlton®, Hyatt®, Four Seasons®, Fairmont®, Hilton® and Westin®. Approximately 85% of our hotels (as measured by sales) are managed by Marriott International or its affiliates and branded under the Marriott or Ritz-Carlton brand names. The majority of our properties are located in central business districts of major cities, near airports and in resort/conference locations. The target profile for our portfolio includes luxury and upper-upscale full-service properties in urban and resort/conference locations which benefit from significant barriers to entry by competitors. Though hotels meeting this target profile will still be subject to competitive pressures, we believe this will allow us to maintain room rate and occupancy premiums over our competitors. We also seek to maximize the value of our portfolio through aggressive asset management, by assisting the managers of our hotels in maximizing property operations and by completing strategic capital improvements. The majority of our customers fall into three broad groups: transient business, group business, and contract business (approximately 54%, 43% and 3%, respectively, of our business in 2004). Our transient business, which includes the individual corporate and leisure traveler, is generally accommodated at a premium rate when compared to other customer types. Group business includes hotel bookings related to conferences and events. The remainder of our customer base results from contracts for a specified number of rooms over a fixed period.

Our hotels are operated by third-party managers under long-term agreements under which they earn base and incentive management fees related to revenues and profitability of each individual hotel. We provide operating funds, or working capital, which the managers use to operate the property including purchasing inventory and paying wages, utilities, property taxes and other expenses. We generally receive a cash distribution, which reflects hotel-level sales less property-level operating expenses (excluding depreciation), from our hotel managers each four week or monthly accounting period, depending on the manager.

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Hotel revenue is approximately 97% of our total revenue. The following table presents the components of our hotel revenue as a percentage of our total revenue:

	% of 2004 Revenues
• Rooms revenue. Occupancy and average daily room rate are the major drivers of rooms revenue. The business mix of the hotel (group versus transient and premium versus discount business) is the key driver of room rates.	59%
• Food and beverage revenue. Occupancy and the type of customer staying at the hotel are the major drivers of food and beverage revenue (i.e., group business typically generates more food and beverage business through catering functions when compared to transient business, which may or may not utilize the restaurant outlets).	31%
• Other revenue. Occupancy, the nature of the property (i.e., resort, etc.) and its price point are the main drivers of other ancillary revenue, such as parking, golf course, spa, telephone, entertainment and other guest services.	7%

Hotel operating expenses are approximately 98% of our total operating costs and expenses. The following table presents the components of our hotel operating expenses as a percentage of our total operating costs and expenses:

	% of 2004 Operating Costs and Expenses
• Rooms expense. These costs include housekeeping, reservation systems, room supplies, laundry services and front desk costs. Occupancy is the major driver of rooms expense. These costs can increase based on increases in salaries and wages, as well as the level of service and amenities that are provided.	17%
• Food and beverage expense. These expenses primarily include food, beverage and labor costs. Occupancy and the type of customer staying at the hotel (i.e., catered functions are generally more profitable than outlet sales) are the major drivers of food and beverage expense, which correlates closely with food and beverage revenue.	26%
• Hotel departmental expense. These expenses include labor and other costs associated with the other ancillary revenues such as parking, golf courses, spas, telephones, entertainment and other guest services, as well as labor and other costs associated with administrative departments, sales and marketing, repairs and minor maintenance and utility costs.	30%
• Management fees. Base management fees are computed as a percentage of gross revenue as set forth in our management contracts. Incentive management fees are generally paid when operating profits exceed threshold levels established in our management agreements.	4%
• Other property-level expenses. These expenses consist primarily of real and personal property taxes, ground rent, equipment rent and property insurance. Many of these expenses are relatively inflexible and do not necessarily change in tandem with changes in revenues at our hotels.	9%
• Depreciation and amortization expense. This is a non-cash expense which is relatively inflexible and changes primarily based on the acquisition and disposition of hotel properties and the level of post-acquisition capital expenditures.	11%

Key Performance Indicators

We have several key indicators that we use to evaluate the performance of our business. Revenue per available room, or RevPAR, is a commonly used measure within the hotel industry to evaluate hotel operations.

RevPAR is defined as the product of the average daily room rate charged and the average daily occupancy achieved. RevPAR does not include revenues from food and beverage or parking, telephone, or other guest services generated by the property. Although RevPAR does not include these ancillary revenues, it is generally considered the leading indicator of core revenues for many hotels. We also use RevPAR to evaluate the results of individual hotels between periods and our comparable hotels. See "Comparable Hotel Operating Statistics" for further discussion of what we consider to be our comparable hotels.

RevPAR changes driven predominately by occupancy have different implications on overall revenue levels as well as incremental operating profit than do changes driven predominately by average room rate. For example, increases in occupancy at a hotel would lead to increases in rooms revenues and ancillary revenues, such as food and beverage, as well as additional incremental costs (including housekeeping services, utilities and room amenity costs). RevPAR increases due to higher room rates, however, would not result in these additional room-related costs. For this reason, while operating profit typically increases when occupancy rises, RevPAR increases due to higher room rates would have a greater impact on our profitability.

A related revenue measure for our hotels is the RevPAR penetration index. The RevPAR penetration index reflects each property's RevPAR in relation to the RevPAR for that property's competitive set. We use the measure as an indicator of a property's market share. For example, a RevPAR penetration index of 100 would indicate that a hotel's RevPAR is, on average, the same as its competitors. A RevPAR penetration index exceeding 100 would indicate that a hotel maintains a RevPAR premium in relation to its competitive set, while a RevPAR penetration index below 100 would be an indicator that a hotel is underperforming its competitive set. One critical component in this calculation is the determination of a hotel's competitive set. Factors that we consider include geographic proximity, as well as the level of service provided at the property. For example, a hotel located near a convention center might have a competitive set that includes other hotels located in close proximity to the convention center. In addition, a luxury hotel might include other luxury or upper-upscale hotels in its competitive set but not economy hotels. Competitive set determinations are highly subjective, however, and our methodology for determining a hotel's competitive set may differ materially from those used by other owners and/or managers.

We assess profitability by measuring changes in our operating margins, which are operating profit as a percentage of total revenues. Another key profitability indicator we use is hotel adjusted operating profit which is a non-GAAP measure, and which is used to evaluate the profitability of our comparable hotels. Hotel adjusted operating profit measures property-level results before funding furniture, fixtures and equipment reserves and debt service and is a supplemental measure of individual property-level profitability. The comparable hotel adjusted operating profit that we discuss is an aggregation of the adjusted operating profit for each of our comparable hotels. See "Non-GAAP Financial Measures—Comparable Hotel Operating Results" for further discussion. We also use, among other things, FFO per diluted share as a supplemental measure of company-wide profitability. See "Non-GAAP Financial Measures—FFO per Diluted Share" for further discussion. Each of the non-GAAP measures should be considered by investors as supplemental measures to GAAP performance measures such as total revenues, operating profit and earnings per share.

Outlook

For 2004, RevPAR increased approximately 7.3% at our comparable hotels as compared to 2003. We believe that lodging demand will continue to grow in 2005 and, in particular, as corporate group and corporate transient business strengthen, we believe that RevPAR at our hotels will continue to increase. Improvements in RevPAR for the first half of 2004 were primarily driven by increases in occupancy at our hotels. In the second half of 2004, increases in RevPAR were attributable to increases in both occupancy and average room rates. We expect that demand will continue to grow and allow for additional growth in average room rates in 2005. This is a result of a number of positive trends such as strong U.S. GDP growth, low supply growth of new hotels, a continued increase in corporate transient demand and a solid group booking pace. Historically, we have seen that lodging demand in the United States correlates to GDP growth, with typically a one to two quarter lag period, especially within the luxury and upper-upscale sectors of the lodging industry. Therefore, given the relatively strong U.S. GDP growth in 2004 and the GDP forecasts for 2005, we are optimistic about improvements in lodging demand in 2005. As a result of these trends, we expect our comparable hotel RevPAR to increase approximately 6.5% to 8.5% for 2005.

In addition to the favorable demand trends forecast to affect the lodging industry in general, we believe we will be able to capitalize on the low supply growth trends that have existed during the past few years. Supply growth in the lodging industry and the geographic markets in which we operate may be influenced by a number of factors, including growth of the economy, interest rates, local considerations and the relatively long lead time required to build urban and resort/conference hotels. We believe that the low construction levels over the past few years, together with low expectations for additional supply growth over the next few years, will lead to an imbalance between supply and growing demand that will allow for improved RevPAR performance at our hotels.

In terms of profitability measures, operating margins were relatively unchanged for the first half of 2004. However, operating margins increased in the second half of 2004, as the average room rate increases at our hotels began to exceed the rate of inflation for the first time since 2000, resulting in an overall increase for the full year for our comparable hotels. Operating margins continue to be affected by certain of our costs, primarily wages, benefits, utilities and sales and marketing, which increased at a rate greater than inflation. We expect these costs to continue to increase at a rate greater than inflation in the near term. As noted above, approximately 31% of our revenues are from food and beverage operations. During 2004, food and beverage revenue growth at our comparable hotels was 5.7%. As the economy continues to expand in 2005, we expect to see an increase in our catering revenues, which should improve our food and beverage operating margins.

We also may see improvements in RevPAR and operating margins as we continue our strategy of recycling assets. As noted below, over the past year we have been acquiring upper-upscale and luxury properties in urban and resort/conference locations, where further large-scale lodging development is limited, and selling assets in suburban, secondary and tertiary markets. The assets we have been acquiring have higher RevPAR, higher operating margins and, we believe, higher growth potential than those we have sold. Over time, this should contribute to improvements in overall RevPAR and operating margins.

During 2004, the average RevPAR penetration index for our comparable hotels modestly declined, but it remains at a premium in relation to our competitive set. This follows a similar decline in our average RevPAR penetration index for our comparable hotels in 2003. Market share at our urban and airport hotels increased slightly in 2004, reversing the prior year trend as a result of the increase in business travel, however, market share continued to decline at our suburban properties and our larger convention hotels. We believe that this decline in market share over the past two years occurred because:

- our hotels generally have a higher percentage of their revenues generated by corporate group and corporate transient customers than their competitors and that business in the upper-upscale and luxury segment did not begin to significantly increase until the second half of 2004;
- certain of our properties overcommitted to lower-rated group business late in 2003, which has resulted in those properties being unable to take advantage of higher-rated transient business as travel increased in 2004;
- we have a significant number of large hotels in our portfolio, including nine convention hotels with greater than 1,000 rooms, which require longer periods of time to rebuild their customer base; and
- new supply in several of our markets affected our hotels.

As lodging demand continues to grow and, in particular, as corporate group and corporate transient business strengthens, we believe that our hotels may regain the majority of the market share lost in 2003 and 2004.

While we believe the combination of improved demand trends and low supply growth trends in the lodging industry creates the possibility for improvements in our business in 2005, there can be no assurances that any increases in hotel revenues or earnings at our properties will continue. The trends discussed above may not occur for any number of reasons, including:

- slower than anticipated growth in the economy, business investment and employment and changes in travel patterns; and
- the continued threat of additional terrorist attacks, high oil prices, airline strikes and other factors that may have an adverse impact on travel and lodging demand.

All of the above, as well as the risks set forth in the section "Forward-Looking Statements" may result in lower revenues or higher operating costs and declining operating margins.

Management's Priorities

Based on forecasted operating conditions, our key management priorities over the next several years include the following:

- to work with our managers to increase revenues and minimize operating costs;
- to invest capital in our existing portfolio to maintain our assets and pursue repositioning/ROI opportunities. Potential investments at our hotels could include increasing the number of rooms, building a spa, fitness facility, convention or meeting space or upgrading the infrastructure, such as energy efficient heating and cooling systems;
- to invest in opportunities to enhance the value of existing assets by converting underutilized space to alternate uses such as timeshare or condominium units;
- to acquire upper-upscale and luxury hotels in unique locations, including hotels in urban and resort/conference locations;
- to use the proceeds from the sale of non-core hotels to acquire properties more closely aligned with our target profile or to repay debt; and
- to reduce our leverage, over time, to achieve an EBITDA-to-interest coverage ratio of 3.0x or greater under our senior notes indenture and seek to maintain a balanced maturity schedule with an average maturity of no less than five years.

In furtherance of these objectives, we acquired three hotels in 2004 valued at approximately $502 million (the Fairmont Kea Lani Maui, the Embassy Suites Chicago Downtown-Lakefront and the Scottsdale Marriott at McDowell Mountains). We sold nine non-core properties in 2004 for $254 million and another four properties in January 2005 for $128 million. We also committed to sell by March 2005, subject to several closing conditions, 85% of our interest in the CBM Joint Venture, which owns 120 Courtyard by Marriott properties.

Additionally, we raised $1.2 billion through financing activities in 2004, using those funds along with funds raised through asset dispositions to acquire properties and to repay or refinance $1.1 billion in senior notes and $116 million in mortgage debt, all of which improved our interest coverage ratio and our overall leverage ratio.

Similarly, in 2004 we spent approximately $44 million on repositioning and ROI projects, including commencing a $60 million renovation and repositioning of our Newport Beach Marriott hotel. As part of this project, we have negotiated to sell land which currently houses a tennis facility at this property to a high-end condominium developer. In 2005, we committed to invest approximately $60 million for the development of a 105,000 square-foot exhibit hall at the Orlando World Center Marriott Resort and Convention Center, or the Orlando Marriott World Center. We expect to spend $200 million to $400 million on such investments in the next several years. By contrast, we had limited our expenditures on such development projects in 2002 and 2003 based on our assessment of the relatively weak operating environment and to preserve capital.

For further detail on each of the above transactions, see the discussion in "Liquidity and Capital Resources." We believe we successfully executed on a number of these management priorities in 2004 based on the positive trends in the hotel industry noted above, as well as improving conditions in the financial markets. There can be no assurances, however, that these trends will continue in 2005 or that we will be able to continue to execute on all, or any, of these priorities in 2005 or over the next several years.

Results of Operations

The following table reflects certain line items from our audited statements of operations and other significant operating statistics (in millions, except operating statistics and percentages):

	2004	2003	% Change 2003 to 2004	2002	% Change 2002 to 2003
Revenues					
Total hotel sales	$ 3,533	$ 3,176	11.2%	$3,244	(2.1)%
Operating costs and expenses:					
Property-level expenses (1)	3,166	2,929	8.1	2,882	1.6
Corporate and other expenses	67	60	11.7	46	30.4
Operating profit	407	299	35.7	417	(28.3)
Interest expense	483	488	(1.0)	458	6.6
Loss from continuing operations	(64)	(239)	73.2	(73)	(227.4)
Net income (loss)	—	14	(100.0)	(16)	187.5
Comparable hotel operating statistics:					
Comparable hotel RevPAR	$107.66	$100.35	7.3%	N/A	(4.2)%
Comparable average room rate	$149.64	$145.42	2.9%	N/A	(1.9)%
Comparable average occupancy	71.9%	69.0%	2.9pts.	N/A	(1.6)pts.

(1) Amount represents operating costs and expenses per our statements of operations less corporate and other expenses.
(2) Comparable hotel operating statistics for 2004 and 2003 are based on the 103 hotels we define as comparable as of December 31, 2004. The percent change from 2002 to 2003 is based on the 107 hotels we define as comparable as of December 31, 2003. See "Comparable Hotel Operating Statistics" for further details.

2004 Compared to 2003

Hotel Sales Overview. Hotel sales increased $357 million, or 11.2%, to $3.5 billion for 2004 as compared to $3.2 billion for 2003. Hotel sales for 2004 include approximately $59 million of sales for the three hotels acquired in 2004 and exclude sales for the properties we have sold or classified as held for sale as of December 31, 2004 for all periods presented, which have been reclassified to discontinued operations. See "Discontinued Operations" below. Comparable hotel sales increased 6.4%, or $203 million, to $3.4 billion. The growth in revenues reflects the increase in comparable RevPAR of 7.3% for 2004, as a result of strong increases in occupancy of 2.9 percentage points, as well as an increase in average room rate of 2.9%. Food and beverage revenues for our comparable hotels increased 5.7%, primarily due to an increase in catering revenues and the overall increase in occupancy.

We discuss operating results for our full-service hotels on a comparable basis, which is properties that we have owned throughout the entire year, while eliminating the results of properties acquired or sold, or that incurred significant property damage or large scale capital improvements during these periods. As of December 31, 2004, 103 of our full-service hotels have been classified as comparable hotels. The following discussion is of the sales results of our comparable hotels considering the mix of business (i.e. transient or group), property type (i.e. urban, suburban, resort/conference or airport) and geographic region. See "Comparable Hotel Operating Statistics" for a complete description of our comparable hotels and further detail on these classifications.

Comparable Hotel Sales by Customer Mix. The majority of our customers fall into two broad groups: transient and group travelers. Continuing a trend we noted in the first three quarters of 2004, the business mix of our portfolio is showing a shift in transient room nights, from lower-rated discount business to higher-rated corporate and premium business.

For 2004, total transient room revenue for our comparable Marriott and Ritz-Carlton hotels was up 6.8% compared to last year, as premium and corporate occupancy increased to 29.3% of total transient demand, up from 25.8% last year, while our average transient room rate increased by 5.4%. This indicates that our hotel managers are having greater success in reducing the number of rooms sold at discounted rates as a result of improving transient demand. We believe the upward trend in occupancy and average room rate should continue as a result of increased corporate and premium business in the fourth quarter.

For 2004, total group room revenue for our comparable Marriott and Ritz-Carlton hotels was up 8.2% compared to last year, primarily due to an increase in occupancy of approximately 7.5%, while our average group room rate was up slightly, or 0.7%. This increase reflects the increased business travel and the steady growth in the economy. Additionally, our managers improved overall occupancy by accepting greater numbers of advance room reservations for groups, which resulted in fewer rooms available for transient business. We expect this trend to reverse in 2005.

Comparable Hotel Sales by Property Type. For full year 2004, revenues increased consistently across all of our hotel property types. Comparable hotel RevPAR increased 6.8%, 6.4%, 7.0% and 12.0% for urban, suburban, resort/conference and airport properties, respectively. The largest increases were for our airport hotels, which reflects a significant increase in business travel in 2004 compared with the significantly depressed levels of 2002 and 2003.

The performance of our portfolio is significantly affected by the size of our hotels, including our large convention hotels, the majority of which are included in urban properties. Convention hotels have historically outperformed in the early stages of an industry downturn; however, they also lag the industry in performance in the early stages of recovery. This is due to the longer booking lead-time for large group business and the level of transient demand required for the greater capacity of rooms. As with other recoveries, we expect that these hotels will ultimately outperform and their performance will stay relatively strong for a longer period of time.

Comparable Hotel Sales by Geographic Region. During 2004, we experienced RevPAR gains in most regions. Full year 2004 comparable hotel RevPAR in our New England region improved 11.0% over the prior year. The region benefited from the Democratic National Convention during the third quarter and was led by the Boston Hyatt, which was converted from the Swissôtel brand in late 2003, where RevPAR improved by 25.6% for the year.

Comparable hotel RevPAR increased 9.2% for our DC Metro region due primarily to a 5.2% increase in average room rates in 2004. Growth was slowed during the year by rooms renovations at four of our hotels in the region. We expect that the region will experience strong RevPAR growth in 2005 due to the Presidential inauguration, the overall strength of the market and the negative effect of the rooms renovations in 2004.

For our Atlanta region, comparable hotel RevPAR grew by 6.0%. The improvement was led by The Grand Hyatt, Atlanta, The Four Seasons, Atlanta and The Ritz-Carlton, Atlanta, where RevPAR increased 9.7%, 10.9% and 9.9%, respectively.

Our Pacific region, which had lagged behind the portfolio as a whole during 2002 and 2003, continued to improve as comparable hotel RevPAR increased 8.0%, with significant increases in occupancy. The primary reason this region had been underperforming over the past three years was due to the decline in travel related to the area’s technology companies, particularly in the San Francisco Bay area. The improvement in the Pacific region in 2004 reflects an increase in comparable hotel RevPAR at our San Francisco market hotels of 14.5%.

The results for the Pacific region also reflect a 6.5% increase in comparable hotel RevPAR at our properties in the Los Angeles market. Overall, we expect the Pacific region to continue to exhibit improving performance in 2005.

Comparable hotel RevPAR in our Mid-Atlantic region improved 10.7% over the prior year. Our New York City properties benefited from the Republican National Convention in the third quarter and strong demand in the fourth quarter.

For 2004, comparable hotel RevPAR in the Florida region improved 7.1% over 2003. During August and September, four hurricanes caused significant damage in Florida. Our 12 properties in the region and the New Orleans Marriott experienced varying levels of property damage and business interruption. During 2004, we recorded $3 million of non-recoverable losses. We believe that the hurricanes could have a modest impact on business next year, as planners of group business may elect to book business in other markets during the hurricane season.

RevPAR in other regions was relatively unchanged from 2003. RevPAR declined 0.9% in our South Central region, while RevPAR in our North Central and Mountain regions experienced comparable RevPAR increases of 2.2% and 2.7%, respectively.

Comparable hotel RevPAR for our international properties increased 17.5% for 2004. Our four Canadian properties, three of which are in Toronto, experienced increases in RevPAR of 24.5%, as the region has recovered from the SARs related travel restrictions in 2003 and the effect of the favorable appreciation of the Canadian dollar compared to the U.S. dollar.

Rental Income. Our rental income represents lease income from our 71 limited-service hotels and three office property leases, as well as lease income from one full-service hotel. In 2003, operations at the leased limited-service hotel properties suffered because a significant portion of these properties underwent renovations to enable them to compete with newer hotels and the weak economic conditions in their markets. While several leased properties were still under renovation in 2004, the properties that underwent renovations in 2003 performed substantially better. This was the primary reason for the increase in total rental income of $6 million to $106 million during 2004.

Operating Costs and Expenses. Operating costs and expenses increased $244 million, or 8.2%, to $3.2 billion. The operating costs and expenses include the costs of three properties acquired in 2004, totaling approximately $48 million, and exclude the costs for properties we sold or that are classified as held for sale, the results of which are included in discontinued operations. Property-level expenses, which account for 98% of our total operating costs and expenses, increased $237 million, or 8.1%, to approximately $3.2 billion. Comparable hotel expenses increased $127 million, or 5.1%, to $2.6 billion. The increase in operating costs and expenses is due to additional costs associated with an increase in occupancy at our hotels and an increase in wage, benefit, utility and sales and marketing costs, all of which we believe will continue to increase at a rate greater than inflation.

Operating costs and expenses also include base and incentive management fees, which are earned based on the operating performance of our individual hotels. Due to the difficult operating environment over the past three years, less than half of our hotels reached the necessary thresholds in 2004 that would require us to incur incentive management fees to our managers. In 2004 and 2003, incentive management fees totaled $38 million and $36 million, respectively. We expect the number of hotels reaching these thresholds and the incentive fees earned to further increase in 2005.

Corporate and Other Expenses. Corporate and other expenses primarily consist of employee salaries and bonuses and other costs such as employee stock-based compensation expense, corporate insurance, audit fees, building rent and system costs. During 2004, the $7 million increase is primarily due to an increase in stock compensation expense, as a result of the significant appreciation in our stock price since December 31, 2003 and an increase in the number of shares that may be issued that are subject to performance criteria established by the Compensation Policy Committee of the Board of Directors.

Interest Expense. During 2004, interest expense decreased $5 million. Interest expense for 2004 includes $32 million of interest which was previously classified as dividends on Convertible Preferred Securities (see Note 4 to the consolidated financial statements). Interest expense also includes $55 million and $31 million of call premiums and accelerated deferred financing costs and original issue discounts that were associated with debt prepayments made in 2004 and 2003, respectively. After excluding these items, interest expense decreased approximately $60 million due to the significant amount of debt repayments and refinancings that have occurred in 2003 and 2004. See "Liquidity and Capital Resources—Cash Requirements—Debt Repayments and Refinancings."

Net Gains on Property Transactions. Net gains on property transactions are due primarily to the recognition of deferred gains. In 1994, we sold a portfolio of Fairfield Inns by Marriott and received a note receivable in partial payment. Subsequently, we recorded a loss on the note due to a decline in the operations of the hotels. During 2004, the owner filed for bankruptcy and several properties were sold. We recognized a previously deferred gain of approximately $12 million based on the amount of the proceeds we received.

Loss on Foreign Currency and Derivative Contracts. During 2004, the loss on foreign currency and derivative contracts is primarily due to the approximate $7 million loss from the foreign currency exchange contracts related to mortgage debt that was secured by three of our Canadian hotels for the majority of 2004 as the U.S. dollar continued to decline in relation to the Canadian dollar. These contracts were deemed ineffective for hedge accounting purposes in 2003, which resulted in an $18 million loss at that time. See "Liquidity and Capital Resources—Debt and Effect of Financial Covenants—Mortgage Debt Covenants" for further discussion.

Minority Interest Expense. Minority interest expense consists of our minority partners' share of the income or loss in consolidated hotel partnerships and the approximate 6% ownership in Host LP.

Equity in Earnings (Losses) of Affiliates. Equity in earnings (losses) of affiliates consists of our portion of the earnings (losses) of two partnerships in which we own non-controlling interests. The decrease in the loss can be attributed to a decrease in the net loss of CBM Joint Venture LLC in 2004 and an increase in the income from our investment in Tiburon Golf Ventures, L.P. See "Investments in Affiliates" for a discussion of these partnerships.

Discontinued Operations. Discontinued operations consist of nine hotels sold in 2004, eight hotels sold in 2003, one hotel sold in 2002, the gain on the disposition and business interruption proceeds for the New York Marriott World Trade Center hotel in 2003 and 2002 and four properties classified as held for sale as of December 31, 2004, all of which were sold in January 2005. In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" or SFAS 144, the results of operations for these properties in the current year and prior periods are reflected in discontinued operations.

For 2004, the nine hotels sold generated net proceeds of approximately $246 million with a net gain on disposition of approximately $52 million. Our revenues for the 21 properties sold in 2003 and 2004 or classified as held for sale at December 31, 2004 and the final disposition of insurance proceeds for the New York Marriott World Trade Center hotel were $133 million for 2004 and $442 million for 2003. Income before taxes for the same periods was $12 million and $191 million, respectively.

2003 Compared to 2002

Hotel Sales. Hotel sales declined $68 million, or 2.0%, to approximately $3.2 billion. Hotel sales for 2003 include approximately $10 million for one hotel acquired in 2003 and exclude sales for the properties we have sold in 2004 and 2003 or classified as held for sale in 2004, which have been reclassified to discontinued operations. See “Discontinued Operations” below. We discuss operating results for our hotels on a comparable basis, and as of December 31, 2003, 112 of our 117 full-service hotels owned on that date were classified as comparable for 2003 and 2002. For 2003, our comparable hotel RevPAR of $96.85 was down 4.2% from 2002, reflecting a decline in average room rate of 1.9% and a decrease in occupancy of 1.6 percentage points, primarily due to reduced transient demand for both business and leisure travel. Beginning in the fourth quarter, demand began to improve relative to the first three quarters of 2003, with less than one-half a percent decrease in room rate and a slight decrease in occupancy over the fourth quarter of 2002. Comparable hotel RevPAR by property type decreased 4.3%, 4.5%, 3.5% and 3.9% for urban, suburban, resort/conference and airport properties, respectively.

While our overall results for 2003 declined, we did experience improvements in comparable hotel RevPAR in four geographic regions for the fourth quarter and two regions for the full year. Comparable hotel RevPAR for our Washington D.C. Metro region increased 4.0% for the fourth quarter and 2.5% for the full year. These increases were driven by strong transient demand particularly at our Northern Virginia properties as occupancy increased 0.9 percentage points for both the fourth quarter and full year for the comparable hotels. Our Florida region also had a slight increase in comparable hotel RevPAR for the year, but a slight decrease for the fourth quarter. The results were primarily driven by our properties in the Ft. Lauderdale and Tampa markets, which benefited from stronger group demand and leisure travel.

The relative improvement of these regions was offset by the overall decline in comparable hotel RevPAR in most of our other regions. In particular, our New England and South Central regions had significant declines in comparable hotel RevPAR of 15.1% and 5.8%, respectively, for the year and 14.4% and 5.7%, respectively, for the fourth quarter. The comparable hotel results in the South Central region were primarily affected by our hotels in San Antonio where full year occupancy was down 3.4 percentage points and average room rate declined 3.6%.

The decline in our New England properties was driven by the performance of our three comparable hotels in Boston which had comparable hotel RevPAR declines of 18.8% and 19.7%, respectively, for the fourth quarter and full year. The decrease in demand was primarily attributable to a reduction in city-wide convention activity in 2003. The New England results discussed above do not include the Boston Copley Marriott which is considered a non-comparable hotel, which had an increase in RevPAR for the fourth quarter of 1.6%.

Our rental income represents lease income from our 71 limited-service hotels and three office property leases, as well as lease income from one full-service hotel. Operations at the leased limited-service hotel properties continued to suffer due to increased competition from full-service and limited-service properties and weak economic conditions in their markets, resulting in a very competitive environment and lower room rates.

In 2003, we also recognized $9.6 million of other income from the settlement of a claim that we brought against our directors and officers insurance carriers for reimbursement of defense costs and settlement payments incurred in resolving a series of related actions brought against us and Marriott International which arose from the sale of certain limited partnerships units to investors prior to 1993.

Operating Costs and Expenses. The increase in operating costs and expenses is primarily the result of increases in wages, benefits, insurance and utilities at our hotels. Rental and other expense for our limited-service hotel leases, office properties and one full-service hotel that we leased are included in other property-level expenses on the consolidated statements of operations. Consistent with the relatively fixed nature of these costs, our operating expenses increased in both 2003 and 2002 despite the decrease in revenues in both years.

Corporate and Other Expenses. The increase in corporate and other expenses is primarily due to increases in corporate insurance and the appreciation of Host Marriott’s stock price, which affects the employee stock-based compensation expense.

Interest Expense. Interest expense increased 6.6% over 2002 as a result of the payment of aggregate call premiums of $25 million and the acceleration of deferred financing fees of $6 million associated with the prepayment of our senior notes and various mortgages during 2003.

Loss on Foreign Currency and Derivative Contracts. The loss on foreign currency and derivative contracts is due primarily to the approximate $18 million loss from the forward currency exchange contracts for our four Canadian hotels being deemed ineffective for hedge accounting purposes. See "Liquidity and Capital Resources—Debt and Effect of Financial Covenants—Mortgage Debt Covenants" for further discussion.

Minority Interest Expense. Minority interest expense consists of our minority partners' share of the income or loss in consolidated hotel partnerships and the approximate 7% ownership interest in Host LP. The decrease in minority interest expense is due to the decline in our operations discussed above.

Equity in Earnings (Losses) of Affiliates. Equity in earnings (losses) of affiliates consists of our portion of the earnings (losses) of two partnerships in which we own non-controlling interests and do not consolidate in our financial statements. The increase in the loss can be attributed to an increase in the net loss of CBM Joint Venture LLC in 2003. See "Investments in Affiliates" for a discussion of this partnership.

Discontinued Operations. Discontinued operations consist of nine hotels sold in 2004, eight hotels sold in 2003, one hotel sold in 2002, the gain on the disposition and business interruption proceeds for the New York Marriott World Trade Center hotel in 2003 and 2002 and four properties classified as held for sale as of December 31, 2004. For 2003, the eight hotels sold generated net proceeds of approximately $184 million with a net gain on disposition of approximately $9 million. Discontinued operations for 2003 also includes a $56 million gain on the disposition of World Trade Center hotel. For 2003 and 2002, our revenues for all properties included in discontinued operations were $442 million and $334 million, respectively, and our income before taxes was $191 million and $45 million, respectively.

On December 3, 2003, we announced the settlement of the outstanding matters relating to the terrorist attacks of September 11, 2001 affecting the New York Marriott World Trade Center and Financial Center hotels with the hotels' insurer, Marriott International and the Port Authority of New York and New Jersey. As a result of these settlements, we received net insurance proceeds of approximately $372 million. As a result of this settlement, we recorded a one-time gain of approximately $212 million, which is comprised of approximately $156 million in post-2003 business interruption proceeds and approximately $56 million from the disposition of the New York Marriott World Trade Center hotel. The gain on disposition and the 2003 and 2002 business interruption income, net of expenses, related to the hotel has been reclassified to discontinued operations. The business interruption proceeds received, net of expenses, for the New York Marriott Financial Center hotel are included in rooms revenue from continuing operations.

Comparable Hotel Operating Statistics

We present certain operating statistics (i.e., RevPAR, average daily rate and average occupancy) and operating results (revenues, expenses and adjusted operating profit) for the periods included in this report on a comparable hotel basis. We define our comparable hotels as full-service properties (i) that are owned or leased by us and the operations of which are included in our consolidated results, whether as continuing operations or discontinued operations, for the entirety of the reporting periods being compared, and (ii) that have not sustained substantial property damage or undergone large-scale capital projects during the reporting periods being compared. Of the 111 full-service hotels that we owned on December 31, 2004, 103 have been classified as comparable hotels for 2004 versus 2003 comparisons. The operating results of the following eight hotels that we owned as of December 31, 2004 are excluded from comparable hotel results for these periods:

- The JW Marriott, Washington, D.C. (consolidated in our financial statements beginning in the second quarter of 2003);
- The Hyatt Regency Maui Resort and Spa (acquired in November 2003);
- The Memphis Marriott (construction of a 200-room expansion started in 2003 and completed in 2004);
- The Embassy Suites Chicago Downtown-Lakefront Hotel (acquired in April 2004);
- The Fairmont Kea Lani Maui (acquired in July 2004);

- The Newport Beach Marriott Hotel (major renovation started in July 2004);
- Mountain Shadows Resort Hotel (temporarily closed in September 2004); and
- Scottsdale Marriott at McDowell Mountains (acquired in September 2004).

In addition, the operating results of the 17 hotels we disposed of in 2004 and 2003 are also not included in comparable hotel results for the periods presented herein. Moreover, because these statistics and operating results are for our full-service hotel properties, they exclude results for our non-hotel properties and leased limited-service hotels.

We evaluate the operating performance of our comparable hotels based on both geographic region and property type. These divisions are generally consistent with industry data provided by hospitality research firms such as Smith Travel Research.

Geographic regions consist of the following (only states in which we own hotels are listed):

- Pacific—California, Hawaii, Oregon and Washington;
- Mountain—Arizona and Colorado;
- North Central—Illinois, Indiana, Michigan, Minnesota, Missouri and Ohio;
- South Central—Louisiana, Tennessee and Texas;
- New England—Connecticut, Massachusetts and New Hampshire;
- Mid-Atlantic—Pennsylvania, New Jersey and New York;
- DC Metro—Maryland, Virginia and Washington, D.C.;
- Atlanta—Georgia and North Carolina;
- Florida—Florida; and
- International—Canada and Mexico.

Property types consist of the following:

- Urban—Hotels located in central business districts of major cities. This includes most of our large convention center properties, suburban markets or edge cities located outside the urban core in larger metropolitan areas;
- Suburban—Hotels located in office parks or smaller secondary markets;
- Resort/conference—Hotels in tourist locations such as Florida, Hawaii and Southern California; and
- Airport—Hotels located at or near airports.

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The following table sets forth performance information for our comparable full-service hotels by geographic region and property type as of December 31, 2004 and 2003:

Comparable by Region

	As of December 31, 2004		Year ended December 31, 2004			Year ended December 31, 2003			
	No. of Properties	No. of Rooms	Average Daily Rate	Average Occupancy Percentages	RevPAR	Average Daily Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Pacific	20	10,720	$ 148.93	73.3%	$109.10	$ 148.71	67.9%	$101.03	8.0%
Florida	12	7,337	163.16	71.5	116.69	158.40	68.8	109.00	7.1
Mid-Atlantic	10	6,720	189.17	78.3	148.19	180.11	74.3	133.85	10.7
Atlanta	13	5,940	143.30	67.1	96.15	138.16	65.6	90.67	6.0
North Central	13	4,923	123.93	67.8	84.06	123.52	66.6	82.28	2.2
South Central	7	4,816	131.73	75.1	98.87	131.46	75.9	99.79	(0.9)
DC Metro	10	3,890	155.75	73.4	114.29	148.07	70.7	104.65	9.2
New England	7	3,413	146.12	73.0	106.72	142.32	67.5	96.11	11.0
Mountain	6	2,351	102.34	59.7	61.10	97.56	61.0	59.52	2.7
International	5	1,953	122.86	72.3	88.87	114.67	66.0	75.64	17.5
All Regions	103	52,063	149.64	71.9	107.66	145.42	69.0	100.35	7.3

Comparable by Property Type

	As of December 31, 2004		Year ended December 31, 2004			Year ended December 31, 2003			
	No. of Properties	No. of Rooms	Average Daily Rate	Average Occupancy Percentages	RevPAR	Average Daily Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Urban	40	25,068	$ 165.67	74.4%	$123.21	$ 159.79	72.2%	$115.40	6.8%
Suburban	38	14,081	121.44	67.2	81.63	117.25	65.4	76.72	6.4
Airport	16	7,332	113.12	74.6	84.37	111.66	67.5	75.36	12.0
Resort/ Conference	9	5,582	192.56	69.6	133.99	190.79	65.7	125.26	7.0
All Types	103	52,063	149.64	71.9	107.66	145.42	69.0	100.35	7.3

The following statistics are for all of our full-service properties as of December 31, 2004 and 2003, respectively, and the results of operations for nine hotels sold in 2004 and eight hotels sold in 2003 prior to their disposition.

	All Full-Service Properties Year ended	
	December 31, 2004	December 31, 2003
Average Room Rate	$ 152.03	$ 141.93
Average Occupancy	72.0%	69.1%
RevPAR	$ 109.51	$ 98.01

Liquidity and Capital Resources

Cash Requirements

HMC is required to distribute to its stockholders at least 90% of its taxable income in order to qualify as a REIT. Funds used by HMC to make these distributions are provided from Host LP. Because we are required to distribute almost all of our taxable income, we depend primarily on external sources of capital to finance future growth, including acquisitions.

Cash Balances. As of December 31, 2004, we had $347 million of cash and cash equivalents, which was a decrease of $417 million from December 31, 2003. The decrease is primarily attributable to significant debt prepayments and acquisitions in 2004. For a further discussion, see “Sources and Uses of Cash” below. In the third quarter of 2004, we amended and restated our credit facility, which now provides aggregate revolving loan commitments of $575 million, an increase of $275 million. We have no amounts outstanding under the credit facility. Due to the volatile operating environment in 2002 and 2003, our cash balances have been in excess of the $100 million to $150 million which we had historically maintained. With the added flexibility and capacity of our new credit facility and the continuing growth of the economy, we expect to lower our cash balances to previous levels over the next several quarters.

As of December 31, 2004, we also had an additional $154 million of cash which was restricted as a result of lender requirements (including reserves for debt service, real estate taxes, insurance, as well as cash collateral and excess cash flow deposits). The restricted cash balance includes $37 million which is held in escrow in accordance with debt covenant requirements where cash flows after debt service from certain properties did not meet certain required minimum levels (see “Financial Condition—Mortgage Debt” below). The restricted cash balances do not have a significant effect on our liquidity.

Debt Repayments and Refinancings. With the proceeds from asset sales and the insurance proceeds received for the New York Marriott World Trade Center hotel, we repaid or redeemed a total of approximately $400 million of debt in 2004. We also made $61 million of scheduled principal payments. In addition, we refinanced approximately $830 million of our debt in 2004. The combined effect of these transactions lowered our average interest rate by approximately 65 basis points. As a result of the repayments and refinancings completed during both 2003 and 2004, our annual interest expense obligations, excluding the effect of call premiums and accelerated deferred financing costs, have declined approximately $80 million based on interest rates as of December 31, 2004. We have no significant debt maturities prior to February 2006, though principal amortization will total approximately $66 million in 2005. We believe we have sufficient cash to deal with our near-term debt maturities, as well as any unanticipated decline in the cash flow from our business.

Reducing our leverage and future interest payments through debt repayments and refinancings remains a key management priority. In November 2003, Host Marriott’s Board of Directors authorized us to purchase or retire up to $600 million of our senior notes with proceeds from additional asset sales ($317 million of which remains available under this authorization). Senior notes redeemed in connection with a refinancing transaction do not affect the availability under this authorization. As a result, we may continue to redeem or refinance additional senior notes, our Convertible Preferred Securities (QUIPs) debt and mortgage debt from time to time to take advantage of favorable market conditions. We may purchase senior notes and QUIPs debt 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, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Any refinancing or retirement before the maturity date would affect earnings and FFO per diluted share, as defined herein, as a result of the payment of any applicable call premiums and the acceleration of previously deferred financing costs. During 2004, we incurred interest expense resulting from the payment of call premiums of approximately $40 million and the acceleration of deferred financing costs and original issue discounts totaling approximately $14 million.

Capital Expenditures. Typically, our renewal and replacement capital expenditures range from $200 million to $250 million on an annual basis. Based on the improved economy in 2004, we have increased spending compared to 2003, where we had reduced our capital expenditures based on our assessment of the operating environment, including delaying certain projects due to the start of the war in Iraq, and to preserve capital. For 2004, renewal and replacement capital expenditures totaled approximately $206 million. During 2003, our capital expenditures were focused on property maintenance and improvements designed to maintain appropriate levels of quality. We spent approximately $181 million on renewal and replacement capital expenditures in 2003. Our renewal and replacement capital expenditures are generally funded by the furniture, fixture and equipment funds established at certain of our hotels (typically funded annually with approximately 5% of property revenues) and by our available cash.

During 2004, we also spent approximately $44 million on repositioning/ROI projects. These projects have historically generated strong returns and over the next several years we expect to spend $200 million to $400 million on such investments. Repositioning /ROI projects include substantial repositionings or expanding room, ballroom, meeting, conference and exhibit hall facilities (often through the conversion of underutilized space), constructing or expanding spa facilities and installing energy management systems. In addition, we will continue to seek opportunities to enhance the value of our portfolio by identifying and executing strategies that capitalize on alternate uses of our assets, such as the development of timeshare or condominium units on excess land or the conversion of existing rooms to timeshare or condominium units such as the previously discussed renovation and repositioning of the Newport Beach Marriott Hotel. The renovation is expected to cost approximately $60 million and will include the addition of a spa and 20 new luxury suites, redesigned guest rooms, a new restaurant concept and updated meeting space. We also recently announced a commitment to invest approximately $60 million for the development of an exhibit hall for the Marriott Orlando World Center hotel. In addition, we are pursuing the development of 120 timeshare units on a beachfront parking lot at the Hyatt Regency Maui Resort and Spa.

On September 3, 2004, we also converted the 590-room Denver Southeast Marriott to the Four Points by Sheraton Denver Southeast and are currently utilizing 475 rooms. We spent approximately $2 million in 2004 and expect to spend a total of $5 million for the conversion, which we believe will result in improved cash flows. We are also in the process of negotiating a contract to sell the Marriott Mountain Shadows Resort, which has been temporarily closed since September 2004. The sale of the hotel is contingent on, among other items, obtaining local government approval for the proposed redevelopment.

Acquisitions. We remain interested in pursuing single asset and portfolio acquisitions and believe that there will be opportunities in the near term and over the next several years to acquire assets that are consistent with our target profile of upper-upscale and luxury properties. An example of this strategy is the July 15, 2004 acquisition of the 450-suite Fairmont Kea Lani Maui, a luxury resort hotel located on 21 acres of Wailea’s Polo Beach, for $355 million. We also acquired the 270-suite Scottsdale Marriott at McDowell Mountains on September 22, 2004 for approximately $58 million, $34 million of which was funded through the assumption of the existing mortgage debt on the hotel and the 455-suite Chicago Embassy Suites Downtown-Lakefront for $89 million in May 2004. In addition, during 2004, we purchased a retail building adjacent to one of our hotels and the land under the JW Marriott Hotel at Lenox in Atlanta, which we previously leased, for a combined total of approximately $30 million.

We may acquire properties through various structures, including transactions involving portfolios, single assets, joint ventures and acquisitions of all or substantially all of the securities or assets of other REITs or similar real estate entities. We anticipate that our acquisitions will be financed through a combination of methods, including proceeds from equity offerings of HMC, issuance of OP Units by Host LP, advances under our credit facility, our available cash and the incurrence or assumption of indebtedness. We may, from time to time, be in the process of identifying, analyzing and negotiating possible acquisition transactions and we expect to continue to do so in the future. We cannot be certain as to the size or timing of acquisition opportunities or of our ability to obtain additional acquisition financing, if needed. Additionally, the number of potential acquirers for individual hotel properties has increased due to the improvement of both the capital markets and the lodging industry and, as a result, the cost of acquiring properties has increased. We can provide no assurance that we will be able to find acquisition targets that provide a suitable return on investment.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, the sale of assets, borrowing under our credit facility and our ability to obtain additional financing through various capital markets. Our principal uses of cash are debt service, asset acquisitions, capital expenditures, operating costs, corporate and other expenses and distributions to equity holders.

Cash Provided by Operations. Our cash provided by operations decreased $10 million to $360 million for 2004 from $370 million for 2003. Cash from operations in 2003 included $156 million in business interruption proceeds related to the disposition of the New York Marriott World Trade Center hotel. Excluding this transaction, cash provided by operations increased approximately $146 million in 2004.

Cash Provided by or Used in Investing Activities. Cash used in investing activities for 2004 was $501 million compared to $153 million for 2003. Activity for 2004 primarily included the acquisition of three hotel properties and other assets for total cash expenditures of approximately $503 million, the net proceeds of approximately $246 million from the sale of nine non-core properties, and capital expenditures at our properties of approximately $250 million.

In January of 2005, we also completed the disposition of four hotels for total proceeds of approximately $128 million. The net proceeds from these sales will be used to repay debt, fund acquisitions or repositioning/ROI projects, or for general corporate purposes. On December 30, 2004, we received approximately $47 million in payment of a note receivable from a minority partner in a consolidated partnership that owns two hotels. At the request of the minority partner, the partnership purchased preferred units of Vornado Realty Trust (the "Vornado Preferred Units), which we held as of December 31, 2004. As the Vornado Preferred Units are not publicly traded, we have recorded them in other assets at their cost basis in our consolidated balance sheet. On January 3, 2005, these securities were transferred to the minority partner in redemption of his partnership interest. We also paid approximately $14 million to a second partner for the remaining minority interests in the partnership. No gain or loss was recognized on this transaction.

On December 15, 2004, we executed a sale agreement with an affiliate of Sarofim Realty Advisors ("Sarofim") and Marriott International, whereby Sarofim will acquire 85% of our interest in CBM Joint Venture for approximately $92 million. We and Marriott International each currently own a 50% interest in CBM Joint Venture, which owns 120 Courtyard by Marriott properties totaling approximately 17,500 rooms. As part of the transaction, CBM Joint Venture will be converted into a limited partnership and we will have the right to cause the partnership to redeem our remaining interest in the partnership under certain conditions between December 8, 2007 and December 8, 2009. Starting December 9, 2009, the partnership will have the right to redeem our remaining interest. The sale is expected to close by March 2005 and is subject to several closing conditions, including: no significant decrease in the net worth of CBM Joint Venture (but not considering a decrease in net worth due to changes in market conditions); the entering into by CBM Joint Venture of new management agreements and ground leases with Marriott International and its affiliates; Sarofim's ability to complete the refinancing of certain secured debt and to obtain certain lender consents; and other customary closing conditions. There can be no assurances that the sale will be completed. There have been no cash distributions to us from CBM Joint Venture since 2001.

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The following table summarizes significant investing activities that have been completed since the beginning of fiscal year 2003 (in millions):

Transaction Date		Description of Transaction	Sale (Investment) Price
Acquisitions			
September	2004	Purchase of the 270-room Scottsdale Marriott at McDowell Mountains (1)	$ (58)
July	2004	Purchase of the 450-suite Fairmont Kea Lani	(355)
May	2004	Purchase of the 455-room Embassy Suites Lakefront, Chicago	(89)
November	2003	Purchase of the 806-room Hyatt Regency Maui Resort and Spa	(321)
June	2003	Acquisition of the remaining interests in the JW Marriott in Washington, D.C.(2)	(98)
		Total acquisitions	$ (921)
Dispositions			
January	2005	Sale of Torrance Marriott	$ 62
January	2005	Sale of Hartford Marriott at Farmington, Tampa Westshore Marriott and Albuquerque Marriott	66
December	2004	Sale of the Bethesda Marriott	45
December	2004	Sale of the Salt Lake City Marriott	50
May	2004	Sale of the Dallas/Fort Worth Airport Marriott	59
January	2004	Sale of the Mexico City Airport Marriott	30
January	2004	Sale of the Atlanta Northwest Marriott, Detroit Romulus Marriott and the Detroit Southfield Marriott, Atlanta Marriott Norcross and the Fullerton Marriott	70
December	2003	Insurance recovery from the New York Marriott World Trade Center and New York Marriott Financial Center hotels	372
December	2003	Sale of the Williamsburg Marriott, Oklahoma City Marriott and the Plaza San Antonio Marriott	75
November	2003	Sale of the Jacksonville Marriott	17
July	2003	Sale of Norfolk Waterside Marriott, Oklahoma City Waterford Marriott and Palm Beach Gardens Marriott	71
January	2003	Sale of Ontario Airport Marriott	26
		Total dispositions	$ 943

(1) Investment price includes the assumption of $34 million of mortgage debt.
(2) Investment price includes the assumption of $95 million of mortgage debt.

Cash Used in and Provided by Financing Activities. Cash used in financing activities, net, was $276 million for 2004. Cash provided by financing activities, net, was $186 million for 2003. During 2004, approximately $1.2 billion of cash has been provided by financing activities through the issuance of equity and debt securities, while cash used in financing activities primarily consisted of debt prepayments of approximately $1.2 billion. See the table below for additional information. In connection with the redemptions of senior notes in 2004, we were required to pay premiums totaling approximately $40 million in exchange for the right to retire this debt in advance of its maturity. We also recorded interest expense of $14 million for the acceleration of the related deferred financing fees and original issue discounts for the prepayment of the senior notes. On August 3, 2004, we redeemed all 4.16 million shares of HMC's 10% Class A preferred stock (and corresponding Class A preferred units of Host LP) for approximately $104 million with the proceeds from the issuance of 4 million shares of the 8 7/8% Class E preferred shares and available cash.

During December 2003, we announced the settlement of all outstanding matters related to the New York Marriott World Trade Center and Financial Center hotels with our insurer, Marriott International and the Port Authority of New York and New Jersey. As a result of this settlement, we received net proceeds of approximately $372 million, substantially all of which were used to repay debt. During the fourth quarter of 2003, we used the proceeds to repay the $65 million mortgage debt on the New York Marriott World Trade Center hotel and made a

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partial prepayment of $32 million of mortgage debt on our Canadian properties. The remainder of the proceeds was used in the first quarter of 2004 for a partial prepayment of $44 million of debt secured by mortgages on two Ritz-Carlton properties and to retire the remaining outstanding Series C senior notes of approximately $218 million (both of which are included in the totals for financing activities for 2004 noted above).

The following table summarizes significant debt and equity activity, except for the credit facility and derivative transactions completed since January 1, 2003 (in millions):

Transaction Date		Description of Transaction	Transaction Amount
Debt			
December	2004	Partial prepayment of the 5.19% Canadian mortgage loan (1)	$ (34)
September	2004	Assumed 6.08% mortgage on the Scottsdale Marriott at McDowell Mountains hotel	34
September	2004	Redemption of 7 7/8 Series B senior notes	(336)
August	2004	Proceeds from the issuance of 7% Series L senior notes	345
May	2004	Redemption of 7 7/8 Series B senior notes	(65)
April	2004	Redemption of 7 7/8 Series B senior notes	(494)
March	2004	Proceeds from the issuance of 3.25% Exchangeable Senior Debentures due 2024	484
January	2004	Payment of the 12.68% mortgage on the Mexico Airport Marriott	(11)
January	2004	Prepayment of the 8.58% mortgage on the Hanover Marriott	(27)
January	2004	Redemption of the remaining 8.45% Series C senior notes	(218)
January	2004	Partial prepayment of the 9% mortgage on The Ritz-Carlton, Naples and Buckhead	(44)
December	2003	Partial prepayment of the 4.19% Canadian mortgage loan (1)	(32)
December	2003	Retired $429 million of 7 7/8% Series A senior notes	(429)
December	2003	Retired $282 million of 8.45% Series C senior notes	(282)
December	2003	Payment of the 4.9% mortgage on the World Trade Center hotel	(65)
November	2003	Issuance of 7 1/8% Series K senior notes due in 2013	725
September	2003	Refinancing proceeds from the 4.5% mortgage on the JW Marriott, Washington, D.C. (2)	88
September	2003	Repayment of the 8.77% mortgage on the JW Marriott, Washington, D.C.	(95)
August	2003	Retired a portion of 7 7/8% Series A senior notes due in 2005	(71)
April	2003	Partial prepayment of the 4.07% Canadian mortgage loan (1)	(7)
March	2003	Retired a portion of 9.25% senior notes due in 2007	(8)
January	2003	Repayment of the 8.03% mortgage on The Ritz-Carlton, Naples Buckhead Loan	(17)
2004/2003		Principal amortization	(61)
		Net debt transactions	$ (620)
Equity			
August	2004	Redemption of 4.16 million shares of 10% Class A preferred shares	$ (104)
May/June	2004	Proceeds from the issuance of approximately 4 million shares of 8 7/8% Class E preferred shares	98
June	2004	Proceeds from the issuance of 25 million shares of common stock at a price to the public of $12.12 per share	301
October	2003	Proceeds from the issuance of 23.5 million shares of common stock at a price to the public of $10.75 per share	250
August	2003	Proceeds from the issuance of 27.5 million shares of common stock at a price to the public of $9.25 per share	251
		Net equity transactions	$ 796

(1) The Canadian mortgage has a floating interest rate based on LIBOR plus 275 basis points. The interest rates shown reflect the rate as of the date of the transactions.
(2) The JW Marriott, Washington, D.C. has a floating interest rate based on LIBOR plus 210 basis points. The rate shown is the rate as of December 31, 2004.

Financial Condition

General

As of December 31, 2004, our total debt was $5.5 billion. The weighted average interest rate of our debt is approximately 7.1% and the current average maturity is 6.6 years. Additionally, approximately 86% of our debt has a fixed rate of interest as of December 31, 2004. In general, we seek to limit near term maturities and maintain an average maturity of no less than five years, although there can be no assurances that we will achieve this objective. We may also make exceptions to these objectives to take advantage of market conditions.

Senior Notes

General. The following summary is a description of the material provisions of the indentures governing our various senior notes issues issued by the operating partnership, which we refer to collectively as the senior notes indenture. Under the terms of our senior notes indenture, our senior notes are equal in right of payment with all of the operating partnership's unsubordinated indebtedness and senior to all subordinated obligations of the operating partnership. The notes outstanding under our senior notes indenture are guaranteed by certain of our existing subsidiaries and are currently secured by pledges of equity interests in many of our subsidiaries. The guarantees and pledges ratably benefit the notes outstanding under our senior notes indenture, as well as our credit facility, certain other senior debt, and interest rate swap agreements and other hedging agreements with lenders that are parties to the credit facility.

Restrictive Covenants. Under the terms of the senior notes indenture, our ability to incur indebtedness and pay dividends is subject to restrictions and the satisfaction of various conditions, including the achievement of an EBITDA-to-interest coverage ratio of at least 2.0x by the operating partnership. This ratio is calculated in accordance with our senior notes indenture and excludes from interest expense items such as interest on our Convertible Subordinated Debentures, call premiums and deferred financing charges that are included in interest expense on our consolidated statement of operations. In addition, the calculation is based on our pro forma results for the four prior fiscal quarters giving effect to the transactions, such as acquisitions, dispositions and financings, as if they occurred at the beginning of the period. Other covenants limiting our ability to incur indebtedness and pay dividends include maintaining total indebtedness (excluding our Convertible Subordinated Debentures) of less than 65% of adjusted total assets (using undepreciated real estate values) and secured indebtedness of less than 45% of adjusted total assets. So long as the operating partnership maintains the required level of interest coverage and satisfies these and other conditions in the senior notes indenture, we may pay preferred or common dividends and incur additional debt under the senior notes indenture, including debt incurred in connection with an acquisition. Our senior notes indenture also imposes restrictions on customary matters, such as limitations on capital expenditures, acquisitions, investments, transactions with affiliates and the incurrence of liens.

Interest. We pay interest on each series of our outstanding senior notes semi-annually in arrears at the respective annual rates indicated on the table below.

Exchangeable Senior Debentures. On March 16, 2004, we issued $500 million of 3.25% Exchangeable Senior Debentures and received net proceeds of $484 million, net of underwriting fees and expenses and an original issue discount. These debentures were issued under our senior notes indenture, and are the only series of senior notes that are exchangeable into HMC common stock. The Exchangeable Senior Debentures mature on April 15, 2024 and are equal in right of payment with all of our unsubordinated debt. Interest is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2004. We can redeem for cash all, or part of, the Exchangeable Senior Debentures at any time subsequent to April 19, 2009 upon 30 days notice at the applicable redemption price as set forth in the indenture. Holders have the right to require us to repurchase the Exchangeable Senior Debentures on April 15, 2010, April 15, 2014 and April 15, 2019 at the issue price. The Exchangeable Senior Debentures are exchangeable into shares of HMC's common stock at a rate of 54.6448 shares for each $1,000 of principal amount of the debentures, or a total of approximately 27 million shares, which is equivalent to an initial exchange price of $18.30 per share our common stock. The exchange rate may be adjusted under certain circumstances, including the payment of common dividends. Holders may exchange their Exchangeable Senior Debentures prior to maturity under certain conditions, including at any time at which the closing sale price of our common stock is more than 120% of the exchange price per share, or initially $21.89, for at least 20 of 30 trading days. The Exchangeable Senior Debentures and the common stock issuable upon exchange of the debentures have not been registered under the Securities Act and may not be offered or sold except to qualified institutional buyers, as defined. We have a shelf registration statement that is currently effective with respect to the resale of our common stock issuable upon exchange of the debentures.

The following table summarizes our outstanding debt and scheduled amortization and maturities related to our senior notes, credit facility and Convertible Subordinated Debentures as of December 31, 2004 (in millions):

	Balance as of December 31, 2004	2005	2006	2007	2008	2009	Thereafter
7 7/8% Series B senior notes, due 8/1/2008	$ 304	$ —	$ —	$ —	$ 305	$ —	$ —
8 3/8% Series E senior notes, due 2/15/2006	300	—	300	—	—	—	—
9 1/4% Series G senior notes, due 10/1/2007 (1)	243	—	—	242	—	—	—
9 1/2% Series I senior notes, due 1/15/2007 (1)	468	—	—	450	—	—	—
7 1/8% Series K senior notes, due 11/1/2013	725	—	—	—	—	—	725
7% Series L senior notes, due 8/15/2012	346	—	—	—	—	—	350
Other senior notes (2)	13	—	—	6	—	—	7
Exchangeable Senior Debentures, due 4/15/2024	491	—	—	—	—	—	500
Total senior notes	2,890	—	300	698	305	—	1,582
Credit Facility, due 9/1/2008	—	—	—	—	—	—	—
Convertible Subordinated Debentures, due 12/2/2026	492	—	—	—	—	—	492
	$ 3,382	$ —	$ 300	$ 698	$ 305	$ —	$ 2,074

(1) Balances at December 31, 2004 for the Series G and Series I senior notes include the fair value of interest rate swaps of approximately $1 million and $18 million, respectively. The interest payments under the Series G and Series I swaps are based on LIBOR plus 5.9% and 4.5%, respectively.
(2) Other senior notes consist of two notes with an average interest rate of 9.7% and mature through 2012 and were issued under different indentures than our other senior notes.

Convertible Subordinated Debentures

As of December 31, 2004, Host Marriott Financial Trust (the “Trust”), a wholly owned subsidiary, has 9.5 million shares of 6 3/4% convertible quarterly income preferred securities outstanding (the “Convertible Preferred Securities”), with a liquidation preference of $50 per share (for a total liquidation amount of $475 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Trust. The payment of distributions by the Trust, payments on liquidation of the Trust, or the redemption of the Convertible Preferred Securities are guaranteed by us. This guarantee, when taken together with our obligations under the indenture pursuant to which the 6 3/4% convertible subordinated debentures due December 2026 (the “Convertible Subordinated Debentures”) were issued, provides a full and unconditional guarantee of amounts due on the Convertible Preferred Securities. Proceeds from the issuance of the Convertible Preferred Securities were invested in Convertible Subordinated Debentures issued by HMC. The Trust exists solely to issue the Convertible Preferred Securities and its own common securities and invest the proceeds therefrom in the Debentures, which is its sole asset. The Trust is wholly owned and has no independent operations.

Each of the Convertible Preferred Securities and the related debentures are convertible at the option of the holder into shares of HMC common stock at the rate of 3.2537 shares per Convertible Preferred Security for a total of approximately 31 million shares (equivalent to a conversion price of $15.367 per share of our common stock). The Trust will only convert Convertible Subordinated Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. The conversion ratio and price have been adjusted to reflect certain transactions including our conversion to a REIT. During 2004 and 2003, no shares were converted to common stock.

Holders of the Convertible Preferred Securities are entitled to receive preferential cumulative cash distributions at an annual rate of 6 3/4% payable quarterly in arrears. The distribution rate and the distribution and other payment dates for the Convertible Preferred Securities correspond to the interest rate and interest and other payment dates on the Convertible Subordinated Debentures. We may defer interest payments on the Convertible Subordinated Debentures for a period not to exceed 20 consecutive quarters. If interest payments on the Convertible Subordinated Debentures are deferred, so too are payments on the Convertible Preferred Securities. Under this circumstance, we will not be permitted to declare or pay any cash distributions with respect to our capital stock or debt securities that rank pari passu with or junior to the Convertible Subordinated Debentures.

The Convertible Preferred Securities are redeemable at the Trust's option upon any redemption by us of the Convertible Subordinated Debentures after December 2, 1999. During 2005, the Convertible Preferred Securities can be redeemed at a price equal to 100.675% of the liquidation preference, or $50.3375 per security. Upon repayment at maturity or as a result of the acceleration of the Convertible Subordinated Debentures upon the occurrence of a default, the Convertible Preferred Securities are subject to mandatory redemption. The Convertible Preferred Securities, as a potentially dilutive security, are evaluated in the calculation of earning per share and FFO per diluted share. The securities were dilutive for FFO per diluted share for both fourth quarter 2004 and 2003, but not for full year. We believe that the securities will be dilutive in 2005 to the extent our FFO per diluted share exceeds approximately $1.04.

In connection with the REIT conversion, Host LP assumed primary liability for repayment of the Convertible Subordinated Debentures underlying the Convertible Preferred Securities. Upon conversion by a Convertible Preferred Securities holder, HMC will issue shares of its common stock, which will be delivered to such holder. Upon the issuance of such shares by HMC, Host LP will issue to HMC a number of OP units equal to the number of shares of HMC common stock issued in exchange for the Convertible Subordinated Debentures.

In accordance with FASB Interpretation No. 46R, "Consolidation of the Variable Interest Entities," we no longer consolidate the Trust effective January 1, 2004. As a result, we recognize the $492 million in Convertible Subordinated Debentures issued by the Trust as debt, eliminating the $475 million of Convertible Preferred Securities previously classified in the mezzanine section of our balance sheet and recognize, as an equity investment, the $17 million invested in the Trust. Additionally, we classify the related dividend payments as interest expense.

Credit Facility

General. On September 10, 2004, we entered into an amended and restated credit facility. The credit facility replaces our prior credit facility and provides aggregate revolving loan commitments in the amount of $575 million. The credit facility also includes sub-commitments for the issuance of letters of credit in an aggregate amount of $10 million and loans to certain of our Canadian subsidiaries in Canadian Dollars in an aggregate amount of $150 million. The credit facility has an initial scheduled maturity in September 2008. We have an option to extend the maturity for an additional year if certain conditions are met at the time of the initial scheduled maturity. We also have the option to increase the amount of the credit facility by up to $100 million to the extent that any one or more lenders, whether or not currently party to the credit facility, commits to be a lender for such amount. We have not made any borrowings under the credit facility.

As with the prior facility, the debt under the amended credit facility is guaranteed by certain of our existing subsidiaries and is currently secured by pledges of equity interests in many of our subsidiaries. The guarantees and pledges ratably benefit our credit facility as well as the notes outstanding under our senior notes indenture, certain other senior debt, and interest rate swap agreements and other hedging agreements with lenders that are parties to the credit facility. As with the prior facility, the pledges are permitted to be released in the event that our leverage ratio falls below 6.0x for two consecutive fiscal quarters.

Dual Tranche Structure. Unlike our prior facility, the revolving loan commitment under the amended credit facility is divided into two separate tranches: (1) a Revolving Facility A tranche of $385 million and (2) a Revolving Facility B tranche of $190 million. Subject to compliance with the facility's financial covenants, amounts available for borrowing under Revolving Facility A vary depending on our leverage ratio, with $385 million being available when our leverage ratio is less than 6.5x, $300 million being available when our leverage ratio equals or exceeds 6.5x but is less than 6.75x, $150 million being available when our leverage ratio equals or exceeds 6.75x but is less than 7.0x, and no amounts being available when our leverage ratio equals or exceeds 7.0x. By contrast, the entire amount of Revolving Facility B is available for borrowing at any time that our unsecured interest coverage ratio equals or exceeds 1.5x and our leverage ratio does not exceed levels ranging from 7.5x to 7.0x. Specifically, prior to the end of our third quarter of 2007, we are permitted to make borrowings and maintain amounts outstanding under Revolving Facility B so long as our leverage ratio is not in excess of 7.5x; the maximum leverage ratio applicable to Revolving Facility B is then reduced to 7.25x from the end of the third quarter of 2007 until the day prior to end of our third quarter of 2008, and is reduced to 7.0x thereafter.

Financial Covenants. We are subject to different financial covenants depending on whether amounts are borrowed under Revolving Facility A or Revolving Facility B, and we are permitted to convert amounts borrowed under either tranche into amounts borrowed under the other tranche. While the financial covenants applicable under Revolving Facility A are generally comparable to those contained in our prior facility (including covenants for leverage, fixed charge coverage and unsecured interest coverage), the financial covenants applicable to Revolving Facility B are limited to leverage and unsecured interest coverage, and are set at less restrictive levels than the corresponding covenants applicable to Revolving Facility A. As a result of this structure, we have gained flexibility to make and maintain borrowings in circumstances where adverse changes to our financial condition could have prohibited the maintenance of borrowings under the prior facility. The financial covenants for the Revolving Facility A and Revolving Facility B do not apply when there are no borrowings under the respective tranche. Hence, so long as there are no amounts outstanding we are not in default of the credit facility if we do not satisfy the financial covenants and we do not lose the potential to draw under the amended credit facility in the future if we were ever to come back into compliance with the financial covenants. We are in compliance with all our covenants as of December 31, 2004.

The following table summarizes the financial tests contained in the credit facility through 2006:

	Facility A—Financial Covenant Levels		
Quarter	**Minimum unsecured interest coverage ratio**	**Maximum leverage ratio**	**Minimum fixed charge coverage ratio**
Third Quarter 2004 to Fourth Quarter 2005	1.50	7.00	1.00
First Quarter 2006 to Fourth Quarter 2006	1.50	6.75	1.00

	Facility B—Financial Covenant Levels	
Quarter	**Minimum unsecured interest coverage ratio**	**Maximum leverage ratio**
Third Quarter 2004 to Fourth Quarter 2005	1.50	7.50
First Quarter 2006 to Fourth Quarter 2006	1.50	7.50

Interest and Fees. We pay interest on borrowings under the Revolving Facility A at floating interest rates plus a margin (which, in the case of LIBOR-based borrowings, ranges from 2.00% to 3.00%) that is set with reference to our leverage ratio. Borrowings under Revolving Facility B are subject to a margin that is 0.5% higher than the corresponding margin applicable to Revolving Facility A borrowings and .75% higher when our leverage ratio is greater than 7.0x. As with the prior facility, to the extent that amounts under the amended credit facility remain unused, we pay a quarterly commitment fee on the unused portion of the loan commitment.

Other Covenants. Our amended credit facility imposes restrictions on customary matters that were also restricted in our prior facility, such as limitations on capital expenditures, acquisitions, investments, the incurrence of debt and the payment of dividends. While such restrictions are generally similar to those contained in our prior facility, we have modified certain covenants to become less restrictive at any time that our leverage ratio falls below 6.0x. In particular, at any time that our leverage ratio is below 6.0x, we will not be subject to limitations on capital expenditures, and the limitations on acquisitions, investments and dividends will be replaced by the generally less restrictive corresponding covenants in our senior notes indenture.

Mortgage Debt

General. As of December 31, 2004, we have 28 assets that are secured by mortgage debt. Substantially all of our mortgage debt is recourse solely to specific assets except in instances of fraud, misapplication of funds and other customary recourse provisions. Currently, secured debt represents approximately 37% of our total debt and has an average interest rate of 7.7% and an average maturity of 4.8 years. Over time, we expect to reduce the amount of our secured debt as a percentage of our total debt. We may refinance secured debt with other financing alternatives, such as senior notes, although there can be no assurances that we will achieve this objective.

As a result of the decline in operations of our properties in 2002 and 2003, restrictive covenants on eight of our hotel properties secured by a $571 million mortgage loan, which we refer to as the CMBS Loan, were triggered. These hotel properties are, the New York Marriott Marquis, the San Francisco Airport Hyatt Regency, the Cambridge Hyatt Regency the Reston Hyatt Regency, the Boston Hyatt Regency, the Drake Hotel New York, the Westin Buckhead Atlanta, and the Swissôtel Chicago, which we refer to as the CMBS Portfolio. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS Portfolio after payment of debt service (approximately $64 million) if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. This provision was triggered beginning in the third quarter of 2002 and will remain in effect until the CMBS Portfolio generates the necessary minimum cash flow for two consecutive quarters, at which point, the cash that has been escrowed will be returned to us. As of December 31, 2004, approximately $37 million of cash has been escrowed. We do not expect cash flows from the CMBS Portfolio to be at the level required to trigger the release of the escrow until 2006. Therefore, we anticipate that additional cash of $25 million will be escrowed in 2005.

On July 12, 2002, we modified the terms of the mortgage debt secured by our four Canadian properties. Under the terms of this modification, we agreed to escrow the excess cash flow from these hotels on a retroactive basis effective December 29, 2001. In April 2003, approximately $7 million of the cash escrowed in accordance with the loan was applied to the outstanding balance of the indebtedness and approximately $2 million was released to us. In July 2003, we entered into an agreement with the lenders to further modify certain covenants so that we would not be required to make additional prepayments at that time. The terms of the modification required us to provide $10 million of cash collateral and pay an additional 25 basis points of interest on the loan. On December 29, 2003, we made a partial repayment of $32 million. In conjunction with the repayment, one of the hotels and the $10 million was released from the collateral in 2003. On December 15, 2004, we repaid an additional $34 million repayment and an additional hotel was released from the collateral. There were no amounts escrowed at December 31, 2003. As of December 31, 2004, approximately $7 million was escrowed. The properties obtained the required level of operations so that the covenant restrictions were lifted and the $7 million escrow will be released in the first quarter of 2005.

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The following table summarizes our outstanding debt and scheduled amortization and maturities related to mortgage and other debt as of December 31, 2004 (in millions):

	Balance as of December 31, 2004	2005	2006	2007	2008	2009	Thereafter
Mortgage Debt							
CMBS Loan, 7.54%, due 8/1/2009 (1)	$ 571	$ 24	$ 24	$ 26	$ 28	$469	$ —
Orlando Marriott World Center, 7.48%, due 1/1/2008	222	4	4	4	210	—	—
San Diego Marriott, 8.45%, due 7/1/2009	185	2	3	3	3	174	—
Host Hotel Properties II, 8.22%, due 10/11/2017 (2) (7)	182	8	9	8	7	7	143
Atlanta Marriott Marquis, 7.4%, due 2/11/2023 (8)	145	4	4	4	4	5	124
Ritz-Carlton—Naples & Buckhead, 9.00%, due 10/1/2006	143	9	134	—	—	—	—
Desert Springs Marriott Resort and Spa, 7.8%, due 12/11/2022 (8)	91	2	3	3	3	3	77
Harbor Beach Marriott, 8.58%, due 3/1/2007	91	1	2	88	—	—	—
Boston Copley Marriott, 8.39%, due 6/1/2006	89	4	85	—	—	—	—
JW Marriott Washington, D.C., 4.5%, due 9/15/2006 (3)	88	—	88	—	—	—	—
Philadelphia Convention Center, 8.49%, due 4/1/2009	81	2	2	2	2	73	—
Other mortgage debt (4)	155	7	24	37	37	22	28
Total mortgage debt (5)	2,043	67	382	175	294	753	372
Other Debt							
Philadelphia Airport industrial revenue bonds, 7 3/4%, due 12/1/2017	40	—	—	—	—	—	40
Capital leases and other (6)	58	6	3	3	—	—	46
Total other debt	98	6	3	3	—	—	86
Total mortgage and other debt	$ 2,141	$ 73	$385	$178	$294	$753	$ 458

(1) This mortgage debt is secured by eight hotel properties and has certain restrictive covenants.
(2) This mortgage debt is secured by first mortgages on three hotels, as well as a pledge of our limited partnership interest in the Santa Clara Partnership.
(3) This floating rate mortgage is based on LIBOR plus 2.10%. The rate shown is as of December 31, 2004. Also, this mortgage has an interest rate cap derivative with a maximum rate of 8.1%.
(4) Other mortgage debt consists of mortgage debt amounts that are less than $40 million, have an average interest rate of 7.6% at December 31, 2004 and mature through 2017.
(5) Total mortgage debt excludes approximately $20 million of mortgage debt, related to the Hartford Marriott Farmington, that was reclassified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.
(6) Capital leases and other consists of five loans with an average interest rate of 7.36% and mature through 2016 as well as capital leases with varying interest rates and maturity dates.
(7) Beginning in 2007, the interest rate on this loan increases a minimum of 200 basis points and all excess cash (as defined in the loan agreement) generated by the partnership is applied to principal; however, the loan can be repaid without a premium or penalty on that date. The amortization presented in this table is the minimum principal payment considering the increase in interest rate, but does not include additional principal payments based on excess cash flow.
(8) Beginning in 2010, the interest rate on these loans increases a minimum of 200 basis points and all excess cash (as defined in the loan agreement) generated by the partnerships that own these two properties is applied to principal; however, the loans can be repaid without a premium or penalty on that date. The amortization presented is the minimum principal payment considering the increase in interest rate, but does not include additional principal payments based on excess cash flow.

Credit Ratings

Currently, we have $2.9 billion of senior notes outstanding and $337 million of HMC preferred stock that are rated by Moody's Investors Service and Standard & Poor's. Standard and Poor's rating on our senior debt is B+ and the rating on HMC's preferred stock is CCC+. Moody's has a Ba3 rating on our senior debt and a B3 rating on HMC's preferred stock. While we have no senior note maturities until 2006, if our operations or our credit ratios were to decline, the ratings on our securities could be reduced. If we were unable to subsequently improve our credit ratings, our cost to issue additional senior notes, either in connection with a refinancing or otherwise, or to issue additional preferred stock would likely increase.

HMC Dividend Policy

HMC is required to distribute to stockholders at least 90% of its taxable income in order to qualify as a REIT, including taxable income recognized for tax purposes but with regard to which we do not receive corresponding cash. Funds used by HMC to pay dividends on its common and preferred stock are provided through distributions from Host LP. For every share of common and preferred stock of HMC, Host LP has issued to HMC a corresponding common OP unit and preferred OP unit. As of February 28, 2005, HMC is the owner of substantially all of the preferred OP units and approximately 94% of the common OP units. The remaining 6% of the common OP units are held by various third-party limited partners.

As a result of the minority position in Host LP common OP units, these holders share, on a pro rata basis, in amounts being distributed by Host LP. As a general rule, when HMC pays a common or preferred dividend, Host LP pays an equivalent per unit distribution on all common or corresponding preferred OP units. For example, if HMC paid a five cent per share dividend on its common stock, it would be based on payment of a five cent per unit distribution by Host LP to HMC as well as other common OP unit holders. For these reasons, investors should also take into account the 6% minority position in Host LP and the requirement that they share pro rata in distributions from Host LP, when analyzing dividend payments by HMC to its stockholders.

HMC's current policy on common dividends is generally to distribute at least 100% of its taxable income, unless otherwise contractually restricted. HMC currently intends to continue paying dividends on its preferred stock, regardless of the amount of taxable income, unless similarly contractually restricted. While we are not currently restricted in our ability to pay dividends, during the second half of 2002 and through the first quarter of 2004 we were limited in our ability to pay dividends, except to the extent necessary to maintain HMC's REIT status. (See "Risk Factors—Our ability to pay dividends may be limited or prohibited by the terms of our indebtedness" for a discussion of those restrictions).

HMC did not pay a dividend on its common stock (and, correspondingly, Host LP did not pay distributions on its common OP units) in 2002 and 2003. As a result of the improvements in operations, on December 20, 2004, we paid a $0.05 per share dividend on HMC's common stock, representing primarily the final distribution of 2003 taxable income. HMC intends to reinstate a quarterly dividend on HMC's common stock beginning with the first quarter of 2005 dividend. We announced that we believe the first quarter dividend will be approximately $.07 to $.09 per share. The amount of any common distribution will be determined by HMC's Board of Directors.

Investments in Affiliates

We have made investments in certain ventures which we do not consolidate and, accordingly, are accounted for under the equity method of accounting in accordance with our accounting policies as described in Note 1 to the consolidated financial statements. Currently, we and an affiliate of Marriott International each own a 50% interest in CBM Joint Venture, which owns, through two limited partnerships, 120 Courtyard by Marriott properties totaling 17,550 rooms. The joint venture has approximately $1,071 million of assets and $898 million of debt. This debt consists of approximately $519 million of first mortgage loans secured by 119 of the 120 properties owned by the partnerships, approximately $129 million of senior notes secured by the ownership interest in one partnership and mezzanine debt in the amount of $250 million. The lender of the mezzanine debt is an affiliate of Marriott International. None of the debt is recourse to, or guaranteed by, us or any of our subsidiaries. RevPAR at the partnerships' Courtyard hotels increased 6.3% year-to-date with an average occupancy increase of 2.0 percentage points and an increase in average room rate of 3.2%. We have not received any cash distributions from this partnership since 2001. On December 15, 2004, we announced the pending sale of our interest in CBM Joint Venture (see "Sources and Uses of Cash" for more information).

As described previously, we deconsolidated the Trust which issued the Convertible Preferred Securities in accordance with FIN 46R. This resulted in our recognizing the $492 million in Convertible Subordinated Debentures issued by the Trust as debt, eliminating the $475 million of Convertible Preferred Securities previously classified in the mezzanine section of our balance sheet and recognizing, as an equity investment, the $17 million invested in the Trust. Additionally, we have classified the related interest payments as interest expense.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

We are party to various transactions, agreements or other contractual arrangements with unconsolidated entities (which we refer to as "off-balance sheet arrangements") under which we have certain contingent liabilities and guarantees. As of December 31, 2004, we are party to the following material off-balance sheet arrangements:

Tax Sharing Arrangements. Under tax sharing agreements with former affiliated companies (such as Marriott International, Host Marriott Services Corporation and Crestline), we are obligated to pay certain taxes (Federal, state, local and foreign, including any related interest and penalties) relating to periods in which the companies were affiliated with us. For example, a taxing authority could adjust an item deducted by a former affiliate during the period that this former affiliate was owned by us. This adjustment could produce a material tax liability that we may be obligated to pay under the tax sharing agreement. In addition, under the partnership agreement between HMC and Host LP, Host LP is obligated to pay certain taxes (Federal, state, local and foreign, including any related interest and penalties) incurred by HMC, as well as any liabilities the IRS successfully may assert against HMC. We do not expect any amounts paid under the tax sharing arrangement to be material.

Tax Indemnification Agreements. For reasons relating to tax considerations of the former and current owners of five hotels, we have agreed to restrictions on selling the hotels, or repaying or refinancing the mortgage debt for varying periods depending on the hotel. These agreements require that we indemnify the owners for their tax consequences resulting from our selling the hotel or refinancing the mortgage debt during the period under the agreement. We have also agreed not to sell more than 50% of the original allocated value attributable to the former owners of a portfolio of 11 additional hotels, or to take other actions that would result in the recognition and allocation of gain to the former owners of such hotels for income tax purposes. Because the timing of these potential transactions is within our control, we believe that the likelihood of any material indemnification to be remote and therefore not material to our financial statements. On average, these restrictions will generally expire, or cease to be significant, in 2009.

Guarantees. We have certain guarantees, which consist of commitments we have made to third parties for leases or debt, that are not on our books due to various dispositions, spin-offs and contractual arrangements, but that we have agreed to pay in the event of certain circumstances including default by an unrelated party. We consider the likelihood of any material payments under these guarantees to be remote. The largest guarantees (by dollar amount) are listed below:

- We remain contingently liable for rental payments on certain divested non-lodging properties. These primarily represent divested restaurants that were sold subject to our guarantee of the future rental payments. The aggregate amount of these future rental payments is approximately $33 million as of December 31, 2004.

- In 1997, we owned Leisure Park Venture Limited Partnership, which owns and operates a senior living facility. We spun-off the partnership as part of Crestline in the REIT conversion, but we remain obligated under a guarantee of interest and principal with regard to $14.7 million of municipal bonds issued by the New Jersey Economic Development Authority through their maturity in 2027. However, to the extent we are required to make any payments under the guarantee, we have been indemnified by Crestline, who, in turn, is indemnified by the current owner of the facility.
- In connection with the sale of three hotels in the fourth quarter of 2004 and January 2005, we remain contingently liable for the amounts due under the respective ground leases. The future minimum lease payments are approximately $20 million through the full term of the leases, including renewal options. We believe that any liability related to these ground leases is remote, and in each case, we have been indemnified by the purchaser of the hotel.

Information on other guarantees and other off-balance sheet arrangements may be found in Note 16 to our consolidated financial statements.

Contractual Obligations

The table below summarizes our obligations for principal and estimated interest payments on our debt, future minimum lease payments on our operating and capital leases and projected capital expenditures, each as of December 31, 2004 (in millions):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-term debt obligations(1)(2)	$7,958	$ 465	$2,208	$1,780	$ 3,505
Capital lease obligations(3)	11	4	7	—	—
Operating lease obligations(4)	1,809	111	214	236	1,248
Purchase obligations(5)	148	148	—	—	—
Deferred management fees(6)	38	—	—	—	38
Total	$9,964	$ 728	$2,429	$2,016	$ 4,791

(1) The amounts shown include amortization of principal, debt maturities and estimated interest payments. Interest payments have been included in the long-term debt obligations based on the weighted average interest rate for both fixed and variable debt. For variable rate debt, we have used the applicable percentage interest rate as of December 31, 2004.
(2) Long-term debt obligations excludes $20 million of mortgage debt, related to the Hartford Marriott Farmington, that was classified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.
(3) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants of $.2 million, payable to us under non-cancelable subleases. The lease payments also include interest payable of $2 million.
(4) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants and the HPT subleases of $27 million and $550 million, respectively, payable to us under non-cancelable subleases.
(5) Our only purchase obligations consist of commitments for capital expenditures at our hotels. Under our contracts, we have the ability to defer some of these expenditures into later years and some of the current year amount reflects prior year contracts that were deferred or not completed. See “Capital Expenditures.”
(6) Under terms of our management agreements, we have deferred payment of management fees to our hotel managers for some of our properties that have not achieved the required income thresholds for payment of owner’s priority to us. The timing of the payments, if any, is based on future operations, the termination of the management agreement or sale of the hotel and is therefore not determinable.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles, or GAAP, which requires management to make estimates and assumptions that affect the reported amount 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 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, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

- *Impairment testing*. We are required by GAAP to record an impairment charge when we believe that one or more of our hotels has been impaired, whereby, future undiscounted cash flows for the hotel would be less than the net book value of the hotel. For impaired assets, we record an impairment charge when a property's fair value less selling costs is less than its net book value. We test for impairment in several situations, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel will be sold before the end of its previously estimated useful life, as well as whenever an asset is classified as "held for sale" or events or changes in circumstances indicate that a hotel's net book value may not be recoverable. In the evaluation of the impairment of our hotels, we make many assumptions and estimates, including:
  - projected cash flows,
  - holding period,
  - expected useful life
  - future capital expenditures
  - fair values, including consideration of capitalization rates, discount rates and comparable selling prices.

Changes in these estimates, assumptions, future changes in economic conditions, or property-level results could require us to record additional impairment charges, which would be reflected in operations in the future.

- *Classification of Assets as "Held for Sale."* We classify properties that we are actively marketing as held for sale when all of the following conditions are met:
  - our Board of Directors has approved the sale (to the extent the dollar magnitude of the sale requires Board approval);
  - a binding agreement to purchase the property has been signed;
  - the buyer has committed a significant amount of non-refundable cash; and
  - no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner.

To the extent a property is classified as held for sale and its fair value less selling costs is lower than the net book value of the property, we will record an impairment loss. See the discussion above concerning the use of estimates and judgments in determining fair values for impairment tests.

- *Depreciation and Amortization Expense.* Depreciation expense is based on the estimated useful life of our assets and amortization expense for leasehold improvements is the shorter of the lease term or the estimated useful life of the related assets. The lives of the assets are based on a number of assumptions including cost and timing of capital expenditures to maintain and refurbish the assets, as well as specific market and economic conditions. While management believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income (loss) or the gain or loss on the sale of any of our hotels.
- *Valuation of Deferred Tax Assets.* We have approximately $111 million, net of a valuation allowance of $14 million, in consolidated deferred tax assets as of December 31, 2004. The objective of financial accounting and reporting standards for income taxes are to recognize the amount of taxes payable or

refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in a company's financial statements or tax returns. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the $111 million in deferred tax assets in the future. When a determination is made that all, or a portion, of the deferred tax assets may not be realized, an increase in income tax expense would be recorded in that period.

- *Valuation of Foreign Currency and Derivative Contracts.* We have two interest rate swap agreements outstanding as of December 31, 2004. Our interest rate swap agreements with a fair market value of $19 million as of December 31, 2004 have been designated as fair value hedges, as described in Note 1 to our consolidated financial statements. While we intend to continue to meet the conditions for hedge accounting, if a particular interest rate swap does not qualify as highly effective, any change in the fair value of the derivative used as a hedge would be reflected in current earnings. Should any change in management strategy, or any other circumstance, cause an existing highly-effective hedge to become ineffective, the accumulated loss or gain in the value of the derivative instrument since its inception may be reclassified from the stockholders' equity section of the balance sheet to current net income (loss). We also have two interest rate cap agreements that are fair valued each quarter and the increase or decrease in fair value is recorded in net income (loss). We also have several foreign currency forward exchange contracts that we previously used to hedge the mortgage loan on our Canadian properties. The hedge was deemed ineffective for accounting purposes in the fourth quarter of 2003. Accordingly, the change in fair value of these foreign currency forward exchange contracts is recorded in net income (loss) on the consolidated statements of operations. See the discussion in "Quantitative and Qualitative Disclosures About Market Risk." We estimate the fair value of all of these instruments through the use of third party valuations, which utilize the market standard methodology of netting the discounted future cash receipts and the discounted expected cash payments. The variable cash flow streams are based on an expectation of future interest and exchange rates derived from observed market interest and exchange rate curves. The values of these instruments will change over time as cash receipts and payments are made and as market conditions change. Any event that impacts the level of actual and expected future interest or exchange rates will impact our valuations. The fair value of our existing foreign currency and derivatives is likely to fluctuate materially from year to year based on changing levels of interest and exchange rates and shortening terms to maturity.
- *Consolidation Policies.* Judgment is required with respect to the consolidation of partnership and joint venture entities in the evaluation of control, including assessment of the importance of rights and privileges of the partners based on voting rights, as well as financial interests that are not controllable through voting interests. Currently, we have investments in entities that in the aggregate own 123 hotel properties and other investments which we record using the equity method of accounting. These entities are considered to be voting interest entities. The debt on these investments is non-recourse to the company and the effect of their operations on our results of operations is not material. While we do not believe we are required to consolidate any of our current partnerships or joint ventures, if we were required to do so, then all of the results of operations and the assets and liabilities would be included in our financial statements. For further detail on our unconsolidated entities see Note 3 to our consolidated financial statements.

Application of New Accounting Standards

During November 2004, the Financial Accounting Standards Board (the "FASB") ratified the Emerging Issues Task Force on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share." EITF 04-8 requires contingently convertible debt instruments to be included in diluted earnings per share, if dilutive, regardless of whether a market price contingency for the conversion of the debt into common shares or any other contingent factor has been met. Prior to this consensus, such instruments were excluded from the calculation of the diluted earnings per share until one or more of the contingencies were met. EITF 04-8 is effective for reporting periods ending after December 15, 2004, and does require restatement of prior period earnings per share amounts. As a result, we will include the common shares that are issuable from the conversion of the Exchangeable Senior Debentures, if dilutive, in our diluted earnings (loss) per share.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, ("FAS 123R"), which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in FAS 123. The provisions of FAS 123R are effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The adoption of this standard in 2005 will not have a material effect on our consolidated financial position and results of operations.

Reporting Periods

Reporting Periods for Consolidated Statement of Operations

The results we report are based on results of our hotels reported to us by our hotel managers. Our hotel managers use different reporting periods. Marriott International, the manager of the majority of our properties, uses a year ending on the Friday closest to December 31 and reports twelve weeks of operations for the first three quarters and sixteen or seventeen weeks for the fourth quarter of the year for its Marriott-managed hotels. In contrast, other managers of our hotels, such as Hyatt, report results on a monthly basis. HMC, as a REIT, is required by tax laws to report results on a calendar year. As a result, we elected to adopt the reporting periods used by Marriott International modified so that our fiscal year always ends on December 31 to comply with REIT rules. Our first three quarters of operations end on the same day as Marriott International but our fourth quarter ends on December 31.

Two consequences of the reporting cycle we have adopted are: (1) quarterly start dates will usually differ between years, except for the first quarter which always commences on January 1, and (2) our first and fourth quarters of operations and year-to-date operations may not include the same number of days as reflected in prior years. For example, set forth below are the quarterly start and end dates for 2004 and 2003. Note that the second and third quarters of 2004 and 2003 both reflect twelve weeks of operations. In contrast, the first and fourth quarters reflect differing days of operations.

	2005		2004 (1)		2003	
	Start-End Dates	**No. of Days**	**Start-End Dates**	**No. of Days**	**Start-End Dates**	**No. of Days**
First Quarter	January 1—March 25	84	January 1—March 26	86	January 1—March 28	87
Second Quarter	March 26—June 17	84	March 27—June 18	84	March 29—June 20	84
Third Quarter	June 18—September 9	84	June 19—September 10	84	June 21—September 12	84
Fourth Quarter	September 10—December 31	113	September 11—December 31	112	September 13—December 31,	110

(1) Reflects an additional day in February for the leap year.

While the reporting calendar we adopted is more closely aligned with the reporting calendar used by the manager of a majority of our properties, one final consequence of our calendar is we are unable to report the month of operations that ends after our fiscal quarter-end until the following quarter because our hotel managers using a monthly reporting period do not make mid-month results available to us. Hence, the month of operation that ends after our fiscal quarter-end is included in our quarterly results of operations in the following quarter for those hotel managers (covering approximately one-fourth of our full-service hotels). As a result, our quarterly results of operations include results from hotel managers reporting results on a monthly basis as follows: first quarter (January, February), second quarter (March to May), third quarter (June to August) and fourth quarter (September to December). While this does not affect full year results, it does affect the reporting of quarterly results.

Reporting Periods for Hotel Operating Statistics and Comparable Hotel Results

In contrast to the reporting periods for our consolidated statement of operations, our hotel operating statistics (i.e., RevPAR, average daily rate and average occupancy) and our comparable hotel results are always reported based on the reporting cycle used by Marriott International for our Marriott-managed hotels. This facilitates year-to-year comparisons, as each reporting period will be comprised of the same number of days of operations as in the prior year (except in the case of fourth quarters comprised of seventeen weeks (such as fiscal year 2002) versus sixteen weeks). This means, however, that the reporting periods we use for hotel operating statistics and our comparable hotel results may differ slightly from the reporting periods used for our statements of operations for the first and fourth quarters and the full year. Set forth below are the quarterly start and end dates for 2004 and 2003 that are used for our hotel operating statistics and comparable hotel results reported herein. Results from hotel managers reporting on a monthly basis are included in our operating statistics and comparable hotel results consistent with their reporting in our consolidated statement of operations.

Hotel Result Reporting Periods for Operating Statistics
and Comparable Hotel Results—for Marriott Managed Properties

	2005		2004		2003	
	Start-End Dates	No. of Days	Start-End Dates	No. of Days	Start-End Dates	No. of Days
First Quarter	January 1—March 25	84	January 3—March 26	84	January 4—March 28	84
Second Quarter	March 26—June 17	84	March 27—June 18	84	March 29—June 20	84
Third Quarter	June 18—September 9	84	June 19—September 10	84	June 21—September 12	84
Fourth Quarter	September 10—December 30	112	September 11—December 31	112	September 13—January 2, 2004	112

Non-GAAP Financial Measures

We use certain "non-GAAP financial measures," which are measures of our historical financial performance that are not calculated and presented in accordance with GAAP, within the meaning of applicable SEC rules. They are as follows: (i) Funds From Operations (FFO) per diluted share, and (ii) Comparable Hotel Operating Results. The following discussion defines these terms and presents why we believe they are useful measures of our performance.

FFO Per Diluted Share

We present FFO per diluted share as a non-GAAP measure of our performance in addition to our earnings per share (calculated in accordance with GAAP). We calculate FFO per diluted share for a given operating period as our FFO (defined as set forth below) for such period divided by the number of fully diluted shares outstanding during such period. The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (calculated in accordance with GAAP) excluding gains (or losses) from sales of real estate, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented on a per share basis after making adjustments for the effects of dilutive securities, including the payment of preferred stock dividends, in accordance with NAREIT guidelines.

We believe that FFO per diluted share is a useful supplemental measure of our operating performance and that presentation of FFO per diluted share, when combined with the primary GAAP presentation of earnings per share, provides beneficial information to investors. By excluding the effect of real estate depreciation, amortization and gains and losses from sales of real estate, all of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that such measure can facilitate comparisons of operating performance between periods and between other REITs, even though FFO per diluted share does not represent an amount that accrues directly to holders of our common stock. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. As noted by NAREIT in its April 2002 "White Paper on Funds From Operations," since real estate values have historically risen or fallen with market conditions, many industry investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. For these reasons, NAREIT adopted the definition of FFO in order to promote an industry-wide measure of REIT operating performance.

We calculate FFO per diluted share, in accordance with standards established by NAREIT, which may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or calculate FFO per diluted share in accordance with NAREIT guidance. In addition, although FFO per diluted share is a useful measure when comparing our results to other REITs, it may not be helpful to investors when comparing us to non-REITs. This information should not be considered as an alternative to net income, operating profit, cash from operations, or any other operating performance measure prescribed by GAAP. Cash expenditures for various long-term assets (such as renewal and replacement capital expenditures) and other items have been and will be incurred and are not reflected in the FFO per diluted share presentations. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our consolidated statements of operations and cash flows include depreciation, capital expenditures and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measures. Additionally, FFO per diluted share should not be considered as a measure of our liquidity or indicative of funds available to fund our cash needs, including our ability to make cash distributions. In addition, FFO per diluted share does not measure, and should not be used as a measure of, amounts that accrue directly to stockholders' benefit.

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The following table provides a reconciliation of net income (loss) available to common stockholders per share to FFO per diluted share (in millions, except per share amounts):

**Reconciliation of Net Loss Available to
Common Stockholders to Funds From Operations per Diluted Share**

	Year ended December 31,					
	2004			2003		
	Income (Loss)	Shares	Per Share Amount	Income (Loss)	Shares	Per Share Amount
Net loss available to common stockholders	$ (41)	337.2	$ (.12)	$ (21)	281.0	$ (.07)
Adjustments:						
Gain on the disposition of the World Trade Center hotel	—	—	—	(56)	—	(.20)
Gain on dispositions, net	(59)	—	(.18)	(9)	—	(.04)
Amortization of deferred gains	(4)	—	(.01)	(4)	—	(.01)
Depreciation and amortization	364	—	1.08	375	—	1.33
Partnership adjustments	21	—	.06	24	—	.08
FFO of minority partners of Host LP (a)	(18)	—	(.05)	(26)	—	(.09)
Adjustments for dilutive securities:						
Assuming distribution of common shares granted under the comprehensive stock plan less shares assumed purchased at average market price	—	3.0	(.01)	—	3.5	(.01)
Assuming conversion of Convertible Subordinated Debentures	—	—	—	—	—	—
Assuming conversion of Exchangeable Senior Debentures (b)	15	21.7	—	—	—	—
FFO per diluted share (c)(d)	$ 278	361.9	$ .77	$ 283	284.5	$ .99

(a) Represents FFO attributable to the minority interest in Host LP.
(b) EITF 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," became effective in the fourth quarter of 2004 and, as a result, the Exchangeable Senior Debentures are now included as a potentially dilutive security. See Note 2 to our consolidated financial statements for more information on EITF 04-8.
(c) FFO per diluted share in accordance with NAREIT is adjusted for the effects of dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, convertible debt securities, those preferred OP units held by minority partners and other minority interests that have the option to convert their limited partnership interest to common shares. No effect is shown for securities if they are anti-dilutive.
(d) The results for the periods presented were significantly affected by several transactions, the effect of which is shown in the tables below (in millions, except per share amounts):

	Year ended December 31,			
	2004		2003	
	Net Income (Loss)	FFO	Net Income (Loss)	FFO
Senior notes redemptions and debt prepayments (1)	$ (59)	$ (59)	$ (36)	$ (36)
World Trade Center hotel insurance gain(2)	—	—	212	156
Loss on foreign currency forward contracts(3)	—	—	(18)	(18)
Class A preferred stock redemption (4)	(6)	(6)	—	—
Directors' and officers' insurance settlement(5)	—	—	7	7
Minority interest benefit (expense) (6)	4	4	(14)	(10)
Total	$ (61)	$ (61)	$ 151	$ 99
Per diluted share	$ (.18)	$(.17)	$ .54	$ .34

(1) Represents call premiums and the acceleration of original issue discounts and deferred financing costs, as well as incremental interest during the call period for refinancings, included in interest expense in the consolidated statements of operations. We recognized these costs in conjunction with the prepayment of senior notes and mortgages during the periods presented.
(2) As a result of the New York Marriott World Trade Center hotel insurance settlement in the fourth quarter of 2003, we recorded a gain of approximately $212 million, which is comprised of $156 million in post-2003 business interruption proceeds and $56 million from the disposition of the hotel. See the previous discussion of non-GAAP financial measures, which describes why we exclude the $56 million gain from FFO per diluted share.
(3) During 2003, we made partial repayments of the Canadian mortgage debt, which resulted in certain of our forward currency hedge contracts being deemed ineffective for accounting purposes.
(4) Represents the original issuance costs for the Class A preferred stock, which were required to be charged against net loss available to common stockholders in conjunction with the redemption of the Class A preferred stock in the third quarter of 2004, as well as the incremental dividends from the date of issuance of the Class E preferred units to the date of redemption of the Class A preferred stock.
(5) During 2003, we recognized approximately $10 million of other income from the settlement of a claim that we brought against our directors' and officers' insurance carriers for reimbursement of defense costs and settlement payments incurred in resolving a series of related actions brought against us and Marriott International that arose from the sale of certain limited partnership units to investors prior to 1993. The effect on net loss and FFO is approximately $7 million due to income taxes on the proceeds.
(6) Represents the portion of the above listed amounts attributable to minority partners in Host LP.

Comparable Hotel Operating Results

We present certain operating results for our full-service hotels, such as hotel revenues, expenses, and adjusted operating profit, on a comparable hotel, or "same store" basis as supplemental information for investors. Our comparable hotel operating results present operating results for full-service hotels owned during the entirety of the periods being compared without giving effect to any acquisitions or dispositions, significant property damage or large scale capital improvements incurred during these periods. We present these comparable hotel operating results by eliminating corporate-level costs and expenses related to our capital structure, as well as depreciation and amortization. We eliminate corporate-level costs and expenses to arrive at property-level results because we believe property-level results provide investors with more specific insight into the ongoing operating performance of our hotels and the effectiveness of management in running our business on a property-level basis. We eliminate depreciation and amortization, because even though depreciation and amortization are property-level expenses, these non-cash expenses, which are based on historical cost accounting for real estate assets, implicitly assume that the value of real estate assets diminishes predictably over time. As noted earlier, because real estate values have historically risen or fallen with market conditions, many industry investors have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves.

As a result of the elimination of corporate-level costs and expenses and depreciation and amortization, the comparable hotel operating results we present do not represent our total revenues, expenses, or operating profit and these comparable hotel operating results should not be used to evaluate our performance as a whole. Management compensates for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our consolidated statements of operations include such amounts, all of which should be considered by investors when evaluating our performance.

We present these hotel operating results on a comparable hotel basis because we believe that doing so provides investors and management with useful information for evaluating the period-to-period performance of our hotels and facilitates comparisons with other hotel REITs and hotel owners. In particular, these measures assist management and investors in distinguishing whether increases or decreases in revenues and/or expenses are due to growth or decline of operations at comparable hotels (which represent the vast majority of our portfolio) or from other factors, such as the effect of acquisitions or dispositions. While management believes that presentation of comparable hotel results is a "same store" supplemental measure that provides useful information in evaluating our ongoing performance, this measure is not used to allocate resources or assess the operating performance of these hotels, as these decisions are based on data for individual hotels and are not based on comparable portfolio hotel results. For these reasons, we believe that comparable hotel operating results, when combined with the presentation of GAAP operating profit, revenues and expenses, provide useful information to investors and management.

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The following table presents certain operating results and statistics for our comparable hotels for the periods presented herein:

Comparable Hotel Results
(in millions, except hotel statistics)

	Year ended December 31, 2004	Year ended December 31, 2003
Number of hotels	103	103
Number of rooms	52,063	52,183
Percent change in Comparable Hotel RevPAR	7.3%	—
Comparable hotel sales		
Room	$ 2,045	$ 1,907
Food and beverage	1,102	1,043
Other	226	220
Comparable hotel sales (1)	3,373	3,170
Comparable hotel expenses		
Room	515	483
Food and beverage	823	784
Other	141	134
Management fees, ground rent and other costs	1,140	1,091
Comparable hotel expenses (2)	2,619	2,492
Comparable hotel adjusted operating profit	754	678
Non-comparable hotel results, net (3)	83	26
Comparable hotels classified as held for sale	(12)	(11)
Office building and limited service properties, net (4)	2	1
Other income	1	12
Depreciation and amortization	(354)	(347)
Corporate and other expenses	(67)	(60)
Operating profit	$ 407	$ 299

(1) The reconciliation of total revenues per the consolidated statements of operations to the comparable hotel sales is as follows (in millions):

	Year ended December 31, 2004	Year ended December 31, 2003
Revenues per the consolidated statements of operations	$ 3,640	$ 3,288
Revenues of hotels held for sale	70	66
Non-comparable hotel sales	(292)	(137)
Hotel sales for the property for which we record rental income, net	47	46
Rental income for office buildings and limited service hotels	(80)	(75)
Other income	(1)	(12)
Adjustment for hotel sales for comparable hotels to reflect Marriott’s fiscal year for Marriott-managed hotels	(11)	(6)
Comparable hotel sales	$ 3,373	$ 3,170

(2) The reconciliation of operating costs per the consolidated statements of operations to the comparable hotel expenses is as follows (in millions):

	Year ended December 31,	
	2004	2003
Operating costs and expenses per the consolidated statements of operations	$ 3,233	$ 2,989
Operating costs of hotels held for sale	58	55
Non-comparable hotel expenses	(210)	(112)
Hotel expenses for the property for which we record rental income	47	46
Rent expense for office buildings and limited service hotels	(78)	(74)
Adjustment for hotel expenses for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	(10)	(5)
Depreciation and amortization	(354)	(347)
Corporate and other expenses	(67)	(60)
Comparable hotel expenses	$ 2,619	$ 2,492

(3) Non-comparable hotel results, net, includes the following items: (i) the results of operations of our non-comparable hotels whose operations are included in our consolidated statement of operations as continuing operations and (ii) the difference between the number of days of operations reflected in the comparable hotel results and the number of days of operations reflected in the consolidated statements of operations (see "Reporting Periods" for additional information).

(4) Represents rental income less rental expense for limited service properties and office buildings.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The majority of our outstanding debt has a fixed interest rate. We use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings.

The table below provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents scheduled maturities and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Weighted average interest rates are based on implied forward rates in the yield curve as of December 31, 2004. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are presented in U.S. dollar equivalents, which is our reporting currency. The interest rate swaps and caps that we have entered into are strictly to hedge interest rate risk and not for trading purposes.

	Expected Maturity Date							
	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
				($ in millions)				
Liabilities								
Debt:								
Fixed rate	$ 72	$578	$876	$598	$753	$ 2,519	$5,396	$5,756
Average interest rate	7.4%	7.4%	7.0%	6.8%	6.6%	7.1%		
Variable rate								
Variable rate mortgages	$ 1	$107	$—	$—	$—	$ —	$ 108	$ 109
Average interest rate	4.6%	4.6%	— %	— %	— %	— %		
Total debt (1)(2)							$5,504	$5,865
Interest rate derivatives								
Interest rate swaps								
Fixed to variable	$—	$—	$692	$—	$—	$ —	$ 692	$ 19
Average pay rate	7.3%	7.3%	7.3%	— %	— %	— %		
Average receive rate	9.4%	9.4%	9.3%	— %	— %	— %		

(1) Excludes the fair market value of the interest rate swaps which totaled approximately $19 million as of December 31, 2004.
(2) Total debt excludes $20 million of mortgage debt, related to the Hartford Marriott Farmington, that was reclassified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.

As of December 31, 2004, approximately 85.5% of our debt bears interest at fixed rates. This debt structure largely mitigates the impact of changes in interest rates. We have some financial instruments that are sensitive to changes in interest rates, including our credit facility. The interest rate on our credit facility is based on a spread over LIBOR, ranging from 2.0% to 3.75%. There were no amounts outstanding on our credit facility at December 31, 2004.

We expect the proportion of fixed rate debt in our capital structure to range from 70% to 85% of our total debt, although there can be no assurances that we will be able to achieve this result on terms acceptable to us. In furtherance of this objective, we have entered into three interest rate swaps effectively converting $692 million of fixed rate payments to floating rate payments based on a spread to LIBOR.

On December 20, 2001, we entered into a 5-year interest rate swap agreement, which was effective on January 15, 2002 and matures in January 2007, effectively converting our Series I senior notes to floating rate debt. Under the swap, we receive fixed-rate payments of 9.5% and pay floating-rate payments based on one-month LIBOR plus 450 basis points on a $450 million notional amount, which is equal to the current amount of outstanding Series I senior notes. On August 21, 2003, we entered into two four-year interest rate swap agreements, which mature October 2007, effectively converting our Series G senior notes to floating rate debt. Under the swaps, we receive fixed-rate payments of 9.25% and we make floating-rate payments based on six-month LIBOR plus 590 basis points on a $242 million notional amount, which is equal to the current amount of outstanding Series G senior notes. We have designated the interest rate swaps as fair value hedges for both financial reporting and tax purposes and the amounts paid or received under the swap agreements will be recognized over the life of the agreement as an adjustment to interest expense. Changes in the fair value of the swap and the Series I senior notes and Series G senior notes, respectively, are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of the Series I interest rate swap at December 31, 2004 and December 31, 2003 was $18 million and $34 million, respectively. The fair value of the Series G interest rate swaps at December 31, 2004 and December 31, 2003 was $1 million and $2 million, respectively. These amounts are included in the senior notes line item on our consolidated balance sheet.

If market rates of interest on our variable rate debt and the above swap agreements decrease by 100 basis points, the decrease in interest expense would increase future earnings and cash flows by approximately $7 million annually. If market rates of interest on the same variable rate debt and swap agreements increase by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately $7 million annually.

Exchange Rate Sensitivity

As we have non-U.S. operations (specifically, the ownership of hotels in Canada and Mexico), currency exchange risk arises as a normal part of our business. To manage the currency exchange risk applicable to ownership in non-U.S. hotel, where possible, we may enter into forward or option contracts. The table below summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency forward exchange agreements as of December 31, 2004. The foreign currency exchange agreements that we have entered into are strictly to hedge foreign currency risk and not for trading purposes. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

	Expected Maturity Date						
	2005	2006	2007	2008	Thereafter	Total	Fair Value
	($ in millions)						
Anticipated Transactions and Related Derivatives							
Foreign Currency Forward Exchange Agreements Contract Amount	$ 7	$ 57	$—	$—	$ —	$ 64	$ (20)
Average Contractual Exchange Rate	1.57	1.57	—	—	—		

On August 30, 2001, our Canadian subsidiaries entered into a mortgage loan pursuant to which they borrowed $96.6 million (denominated in U.S. dollars) at a variable rate of LIBOR plus 2.75%. The weighted average interest rate for this mortgage loan was 4.4% and 4.5%, respectively, for the years ended December 31, 2004 and 2003. In addition, since the mortgage loan on these Canadian properties is denominated in U.S. dollars and the functional currency of the Canadian subsidiaries is the Canadian dollar, the subsidiaries entered into currency forward contracts to hedge the currency exposure of converting Canadian dollars to U.S. dollars on a monthly basis to cover debt service payments. Up until April 2003, these forward exchange contracts had been designated as a cash flow hedges of the debt service payments, and the forward contracts were recorded at fair value on the balance sheet with offsetting changes recorded in accumulated other comprehensive income. In December 2003, the Company entered into certain transactions which resulted in the forward contracts no longer qualifying as hedges. We recognized a loss of approximately $18 million in 2003, which was previously included in accumulated other comprehensive income in our consolidated balance sheet. During 2003, we prepaid approximately $39 million of the loan and terminated the foreign currency contracts equal to the prepayments for a payment of approximately $8 million. Accordingly, the change in fair value is recorded in our consolidated statement of operations each period. For 2004, we recorded a loss of $7 million. The fair value of the forward contracts was approximately $(20) million and $(12) million, respectively, at December 31, 2004 and December 31, 2003. In January of 2005, we assigned approximately $32 million notional amount of the forward contracts to a third party for approximately $8 million, which approximated the fair value of those contracts on the date of sale. After this sale, our outstanding notional amount is approximately $20 million and the fair value of the remaining contracts is approximately $(8) million.

FORWARD-LOOKING STATEMENTS

In this report on Form 10-K we make some "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are included throughout this report on Form 10-K and the information incorporated by reference herein, including in the section entitled "Risk Factors" and relate to, among other things, analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "continue," and other similar terms and phrases, including references to assumptions.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors which may cause our actual results, performance or achievements to be materially different from those expressed or implied by us in the forward-looking statements include, among others, the following:

- national and local economic and business conditions and changes in travel patterns that will affect demand for products and services at our hotels, the level of room rates and occupancy that can be achieved by such properties and the availability and terms of financing and our liquidity;
- changes in taxes and government regulations that influence or determine wages, prices, construction procedures and costs;
- our ability to maintain properties in a first-class manner, including meeting capital expenditure requirements;
- our ability to compete effectively in areas such as access, location, quality of accommodations and room rate;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with expectations;
- our degree of leverage, which may affect our ability to obtain financing in the future;
- the reduction in our operating flexibility and our ability to pay dividends resulting from restrictive covenants contained in our debt agreements, including the risk of default that could occur, and in the terms of our preferred stock;
- the effect of terror alerts and potential terrorist activity on travel and our ability to recover fully under our existing insurance for terrorist acts and our ability to maintain adequate or full replacement cost "all-risk" property insurance on our properties;
- government approvals, actions and initiatives, including the need for compliance with environmental and safety requirements, and changes in laws and regulations or the interpretation thereof;
- the effects of tax legislative action;
- HMC's ability to continue to satisfy complex rules in order for it to maintain REIT status for Federal income tax purposes, the ability of the operating partnership to satisfy the rules to maintain its status as a partnership for Federal income tax purposes, the ability of certain of our subsidiaries to maintain their status as taxable REIT subsidiaries for Federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- the effect of any rating agency downgrades on the cost and availability of new debt financings;
- the relatively fixed nature of our property-level operating costs and expenses; and
- other factors discussed under the heading "Risk Factors" and in other filings with the SEC.

Although we believe that the expectations reflected in any of our forward-looking statements are based upon reasonable assumptions, any of these assumptions could prove to be inaccurate and the forward-looking statement based on these assumptions could be incorrect and actual results could differ materially from those projected or assumed. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent known and unknown risks and uncertainties. Accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described above and under the heading “Risk Factors” and in the information incorporated by reference herein. Except as otherwise required by the federal securities laws, we disclaim any obligation to publicly release any updates or revisions to any forward-looking statement contained in this annual report on Form 10-K to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based

RISK FACTORS

Prospective investors should carefully consider, among other factors, the material risks described below.

Financial Risks and Risks of Operation

We depend on external sources of capital for future growth and we may be unable to access capital when necessary.

Unlike corporations, our ability to reduce our debt and finance our growth largely must be funded by external sources of capital because HMC is required to distribute to its stockholders at least 90% of its taxable income in order to qualify as a REIT, including taxable income we recognize for tax purposes but with regard to which we do not receive corresponding cash. Our ability to access the external capital we require could be hampered by a number of factors many of which are outside of our control, including declining general market conditions, unfavorable market perception of our growth potential, decreases in our current and estimated future earnings, excessive cash distributions or decreases in the market price of HMC's common stock. In addition, our ability to access additional capital may also be limited by the terms of our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of distributions. The occurrence of any of these above-mentioned factors, individually or in combination, could prevent us from being able to obtain the external capital we require on terms that are acceptable to us or at all and the failure to obtain necessary external capital could have a material adverse affect our ability to finance our future growth.

We have substantial leverage.

As of February 28, 2005, we and our subsidiaries had total indebtedness of approximately $5.5 billion. Our substantial indebtedness has important consequences. It currently requires us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which reduces the availability of our cash flow to fund working capital, capital expenditures, expansion efforts, distributions to our partners and other general purposes. Additionally, it could:

- limit our ability in the future to undertake refinancings of our debt or obtain financing for expenditures, acquisitions, development or other general business purposes on terms and conditions acceptable to us, if at all; or
- affect adversely our ability to compete effectively or operate successfully under adverse economic conditions.

Because HMC must distribute most of its taxable income in order to maintain its qualification as a REIT, we depend upon external sources of capital for future growth. If our cash flow and working capital were not sufficient to fund our expenditures or service our indebtedness, we would have to raise additional funds. See "Risk Factors—We depend on external sources of capital for future growth and we may be unable to access capital when necessary."

Our revenues and the value of our properties are subject to conditions affecting the lodging industry.

The lodging industry experienced a down-turn from 2001 to 2003, and operations generally declined during this period. The decline was attributed to a number of factors including a weak economy, the effect of terrorist attacks, terror alerts in the United States and the war in Iraq, all of which changed the travel patterns of both business and leisure travelers. While our operations have improved and RevPAR increased in 2004, we cannot provide assurance that changes in travel patterns of both business and leisure travelers are permanent or whether they will continue to evolve creating new opportunities or difficulties for the industry. Any forecast we make regarding our results of operations may be affected and can change based on the following risks:

- changes in the national, regional and local economic climate;
- changes in business and leisure travel patterns;

- local market conditions such as an oversupply of hotel rooms or a reduction in lodging demand;
- the attractiveness of our hotels to consumers relative to our competition;
- the performance of the managers of our hotels;
- changes in room rates and increases in operating costs due to inflation and other factors; and
- unionization of the labor force at our hotels.

Future terrorist attacks or changes in terror alert levels could adversely affect us.

Previous terrorist attacks in the United States and subsequent terrorist alerts have adversely affected the travel and hospitality industries. The impact which terrorist attacks in the United States or elsewhere could have on our business in particular and the U.S. economy, the global economy and global financial markets in general is indeterminable. It is possible that such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and on our results of operations and financial condition as a whole.

Our expenses may not decrease if our revenue drops.

Many of the expenses associated with owning and operating hotels, such as debt payments, property taxes, insurance, utilities, and employee wages and benefits, are relatively inflexible and do not necessarily decrease in tandem with a reduction in revenue at the hotels. Our expenses will also be affected by inflationary increases, and in the case of certain costs, such as wages, benefits and insurance, may exceed the rate of inflation in any given period. Our managers may be unable to offset any such increased expenses with higher room rates. Any of our efforts to reduce operating costs or failure to make scheduled capital expenditures could adversely affect the growth of our business and the value of our hotel properties.

Our ground lease payments may increase faster than the revenues we receive on the hotels situated on the leased properties.

As of February 28, 2005, forty of our hotels are subject to third party ground leases (encumbering all or a portion of the hotel). These ground leases generally require increases in ground rent payments every five years. Our ability to service our debt could be adversely affected to the extent that our revenues do not increase at the same or a greater rate than the increases in rental payments under the ground leases. In addition, if we were to sell a hotel encumbered by a ground lease, the buyer would have to assume the ground lease, which may result in a lower sales price.

We do not control our hotel operations and we are dependent on the managers of our hotels.

Because Federal income tax laws restrict REITs and their subsidiaries from operating a hotel, we do not manage our hotels. Instead, we lease substantially all of our full-service properties to subsidiaries which qualify as “taxable REIT subsidiaries” under applicable REIT laws, and our taxable REIT subsidiaries retain third-party managers to manage our hotels pursuant to management agreements. Our income from the hotels may be adversely affected if our managers fail to provide quality services and amenities or if they fail to maintain a quality brand name. While our taxable REIT subsidiaries monitor the hotel managers’ performance, we have limited specific recourse under our management agreements if we believe that the hotel managers are not performing adequately. In addition, from time to time, we have had, and continue to have, differences with the managers of our hotels over their performance and compliance with the terms of our management agreements. We generally resolve issues with our managers through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate such a dispute. Failure by our hotel managers to fully perform the duties agreed to in our management agreements could adversely affect our results of operations. In addition, our hotel managers manage, and in some cases own or have invested in, hotels that compete with our hotels, which may result in conflicts of interest. As a result, our hotel managers have in the past made and may in the future make decisions regarding competing lodging facilities that are not or would not be in our best interests.

The terms of our debt place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.

The documents governing the terms of our senior notes and our credit facility contain covenants that place restrictions on us and our subsidiaries. The activities upon which such restrictions exist include, but are not limited to:

- acquisitions, mergers and consolidations;
- the incurrence of additional debt;
- the creation of liens;
- the sale of assets;
- capital expenditures;
- raising capital from the issuance of certain types of mandatorily redeemable capital stock;
- the payment of dividends; and
- transactions with affiliates.

In addition, certain covenants in the credit facility require us and our subsidiaries to meet financial performance tests. The restrictive covenants in the indenture, the credit facility and the documents governing our other debt (including our mortgage debt) will reduce our flexibility in conducting our operations and will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with these restrictive covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all or a substantial portion of our debt.

Our ability to pay dividends may be limited or prohibited by the terms of our indebtedness.

We are, and may in the future become, parties to agreements and instruments which restrict or prevent the payment of dividends on our classes and series of capital stock. Under the terms of our credit facility and our senior notes indenture, distributions to HMC by Host LP, upon which HMC depends in order to obtain the cash necessary to pay dividends, are permitted only to the extent that, at the time of the distribution, we can satisfy certain financial covenant tests and meet other requirements.

For example, beginning in the third quarter of 2002 and continuing through the first quarter of 2004, Host LP was prohibited from making distributions (other than in the amounts required to permit HMC to pay dividends necessary to maintain REIT qualification) because our EBITDA-to-interest coverage ratio as calculated under the indenture governing our senior notes (which measures the ratio of pro forma consolidated EBITDA to pro forma consolidated interest expense) was below 2.0 to 1.0. During this period, Host LP was only able to make distributions to HMC, and HMC was only able to pay dividends, to the extent that we were required to make distributions to maintain HMC's status as a REIT. While our EBITDA-to-interest coverage ratio is currently above 2.0 to 1.0 and as a result we are no longer limited by this particular restriction, a decline in our operations could once again limit the amount of distributions that Host LP could make, and HMC's ability to pay dividends, either because our EBITDA-to-interest coverage ratio again falls below 2.0 to 1.0 or because we fail to meet other financial covenant tests or meet other requirements in our credit facility or senior notes indenture.

Our ability to pay dividends on our common stock may also be limited or prohibited by the terms of our preferred stock and Convertible Subordinated Debentures.

Under the terms of each of our outstanding classes of preferred stock, we are not permitted to pay dividends on our common stock unless cumulative dividends have been paid (or funds for payment have been set aside for payment) on each such class of preferred stock. The amount of aggregate dividends that accrue on our outstanding classes of preferred stock each quarter is approximately $8 million.

In the event that we fail to pay the accrued dividends on our preferred stock for any reason, including because we are prevented from paying such dividends under the terms of our debt instruments (as discussed above), dividends will continue to accrue on all outstanding classes of our preferred stock and we will be prohibited from paying any dividends on our common stock until all such accrued but unpaid dividends on our preferred stock have been paid (or funds for such payment have been set aside).

We may defer interest payments on the Convertible Subordinated Debentures for a period not to exceed 20 consecutive quarters. If interest payments on the Convertible Subordinated Debentures are deferred, so too are payments on the Convertible Preferred Securities. Under this circumstance, we will not be permitted to declare or pay any cash distributions with respect to our capital stock or debt securities that rank pari passu with or junior to the Convertible Subordinated Debentures.

Foreclosure on our mortgage debt could adversely affect our business.

Twenty-eight of our hotels and assets related thereto are subject to various mortgages in an aggregate amount of approximately $2.0 billion. Although the debt is generally non-recourse to us, if these hotels do not produce adequate cash flow to service the debt secured by such mortgages, the mortgage lenders could foreclose on these assets. We may opt to allow such foreclosure rather than make the necessary mortgage payments with funds from other sources. However, our senior notes indenture and credit facility contain cross default provisions, which, depending upon the amount of secured debt defaulted on, could cause a cross default under both of these agreements. Our credit facility, which contains the more restrictive cross default provision as compared to our senior notes indenture, provides that it is a credit facility default in the event we default on non-recourse secured indebtedness in excess of 1% of our total assets (using undepreciated real estate values) or default on other indebtedness in excess of $50 million. For this and other reasons, permitting a foreclosure could adversely affect our long-term business prospects.

Our mortgage debt contains provisions that may reduce our liquidity.

Certain of our mortgage debt requires that, to the extent cash flow from the hotels which secure such debt drops below stated levels, we escrow cash flow after the payment of debt service until operations improve above the stated levels. In some cases, the escrowed amount may be applied to the outstanding balance of the mortgage debt. When such provisions are triggered, there can be no assurance that the affected properties will achieve the minimum cash flow levels required to trigger a release of any escrowed funds. The amounts required to be escrowed may be material and may negatively affect our liquidity by limiting our access to cash flow after debt service from these mortgaged properties.

Rating Agency downgrades may increase our cost of capital.

Both our senior notes and our preferred stock are rated by Moody’s and Standard & Poor’s. These independent rating agencies may elect to downgrade their ratings on our senior notes and our preferred stock at any time. These downgrades negatively affect our access to the capital markets and increase our cost of capital.

Our management agreements could impair the sale or financing of our hotels.

Under the terms of our management agreements, we generally may not sell, lease or otherwise transfer the hotels unless the transferee is not a competitor of the manager and the transferee assumes the related management agreements and meets specified other conditions. Our ability to finance or sell our properties, depending upon the structure of such transactions, may require the manager’s consent. If, in these circumstances, the manager does not consent, we may be precluded from taking actions in our best interest without breaching the management agreement.

The acquisition contracts relating to some hotels limit our ability to sell or refinance those hotels.

For reasons relating to tax considerations of the former and current owners of seven hotels, we have agreed to restrictions on selling the hotels, or repaying or refinancing the mortgage debt for varying periods depending on the hotel. We have also agreed not to sell more than 50% of the original allocated value attributable to the former owners of a portfolio of 11 additional hotels, or to take other actions that would result in the recognition and allocation of gain to the former owners of such hotels for income tax purposes. We anticipate that, in specified circumstances, we may agree to similar restrictions in connection with future hotel acquisitions. As a result, even if it were in our best interests to sell these hotels or repay or otherwise reduce the level of the mortgage debt on such hotels, it may be difficult or costly to do so during their respective lock-out periods.

We may be unable to sell properties because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. We may not be able to vary our portfolio promptly in response to economic or other conditions. The inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and our ability to service our debt. In addition, there are limitations under the federal tax laws applicable to REITs that may limit our ability to recognize the full economic benefit from a sale of our assets.

Applicable REIT laws may restrict certain business activities.

As a REIT we are subject to various restrictions on our income, assets and activities. Business activities that could be impacted by applicable REIT laws include, but are not limited to, activities such as developing alternative uses of real estate, including the development and/or sale of timeshare or condominium units, investments in real estate mortgages, investments in securities and dispositions of certain properties.

Due to these restrictions, certain business activities, including those mentioned above, may need to occur in one or more of our taxable REIT subsidiaries. Our taxable REIT subsidiaries are taxable as corporations and are subject to federal, state, and, if applicable, local and foreign taxation on their income at applicable corporate rates. In addition, under REIT laws, the aggregate value of all of our taxable REIT subsidiaries may not exceed 20% of the value of all of the REIT's assets.

We depend on our key personnel.

Our success depends on the efforts of our executive officers and other key personnel. None of our key personnel have employment agreements and we do not maintain key person life insurance for any of our executive officers. We cannot assure you that these key personnel will remain employed by us. While we believe that we could find replacements for these key personnel, the loss of their services could have a significant adverse effect on our financial performance.

Litigation judgments or settlements could have a material adverse effect on our financial condition.

We are a party to various lawsuits. While we and the other defendants to such lawsuits believe all of the lawsuits in which we are a defendant are without merit and we are vigorously defending against such claims, we can give no assurance as to the outcome of any of the lawsuits. If any of the lawsuits were to be determined adversely to us or a settlement involving a payment of a material sum of money were to occur, there could be a material adverse effect on our financial condition.

Our acquisition of additional properties may have a significant effect on our business, liquidity, financial position and/or results of operations.

As part of our business strategy, we seek to acquire upper-upscale and luxury hotel properties. We may acquire these properties through various structures, including transactions involving portfolios, single assets, joint ventures and acquisitions of all or substantially all of the securities or assets of other REITs or similar real estate entities. We anticipate that our acquisitions will be financed through a combination of methods, including proceeds from equity offerings of HMC, issuance of limited partnership interests in Host LP, advances under our credit facility, and the incurrence or assumption of indebtedness. We may, from time to time, be in the process of identifying, analyzing and negotiating possible acquisition transactions and we expect to continue to do so in the future. We cannot assure you that we will be successful in consummating future acquisitions on favorable terms or that we will realize the benefits that we anticipate from one or more acquisitions that we consummate. Our inability to consummate one or more acquisitions on such terms, or our failure to realize the intended benefits from one or more acquisitions, could have a material adverse effect on our business, liquidity, financial position and/or results of operations, including as a result of our incurrence of additional indebtedness and related interest expense and our assumption of unforeseen contingent liabilities.

We may acquire hotel properties through joint ventures with third parties that could result in conflicts.

Instead of purchasing hotel properties directly, we may invest as a co-venturer. Co-venturers often share control over the operation of a joint venture. For example, we entered into a joint venture with Marriott International that owns two limited partnerships holding, in the aggregate, 120 Courtyard by Marriott hotels. Subsidiaries of Marriott International manage these Courtyard by Marriott hotels and other subsidiaries of Marriott International serve as ground lessors and mezzanine lender to the partnerships. Actions by a co-venturer could subject the assets to additional risk, including:

- our co-venturer in an investment might have economic or business interests or goals that are inconsistent with our, or the joint venture's, interests or goals;
- our co-venturer may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or
- our co-venturer could go bankrupt, leaving us liable for its share of joint venture liabilities.

Although we generally will seek to maintain sufficient control of any joint venture to permit our objectives to be achieved, we might not be able to take action without the approval of our joint venture partners. Also, our joint venture partners could take actions binding on the joint venture without our consent.

Environmental problems are possible and can be costly.

We believe that our properties are in compliance in all material respects with applicable environmental laws. Unidentified environmental liabilities could arise, however, and could have a material adverse effect on our financial condition and performance. Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at the property. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by the parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they notify and train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

Compliance with other government regulations can be costly.

Our hotels are subject to various other forms of regulation, including Title III of the Americans with Disabilities Act, building codes and regulations pertaining to fire safety. Compliance with those laws and regulations could require substantial capital expenditures. These regulations may be changed from time to time, or new regulations adopted, resulting in additional costs of compliance, including potential litigation. Any increased costs could have a material adverse effect on our business, financial condition or results of operations.

Some potential losses are not covered by insurance.

We carry comprehensive insurance coverage for general liability, property, business interruption and other risks with respect to all of our hotels and other properties. These policies offer coverage features and insured limits that we believe are customary for similar type properties. Generally, our “all-risk” property policies provide coverage that is available on a per occurrence basis and that, for each occurrence, has an overall limit as well as various sub-limits on the amount of insurance proceeds we can receive. Sub-limits exist for certain types of claims such as service interruption, abatement, earthquakes, expediting costs or landscaping replacement, and the dollar amounts of these sub-limits are significantly lower than the dollar amounts of the overall coverage limit. Our property policies also provide that all of the claims from each of our properties resulting from a particular insurable event must be combined together for purposes of evaluating whether the aggregate limits and sub-limits contained in our policies have been exceeded and, in the case of four of our hotels where the manager provides this coverage, any such claims will also be combined with the claims of other owners participating in the managers’ program for the same purpose. That means that, if an insurable event occurs that affects more than one of our hotels, or, in the case of hotels where coverage is provided by the management company, affects hotels owned by others, the claims from each affected hotel will be added together to determine whether the aggregate limit or sub-limits, depending on the type of claim, have been reached and each affected hotel may only receive a proportional share of the amount of insurance proceeds provided for under the policy if the total value of the loss exceeds the aggregate limits available. We may incur losses in excess of insured limits and, as a result, we may be even less likely to receive sufficient coverage for risks that affect multiple properties such as earthquakes or certain types of terrorism.

In addition, there are other risks such as war, certain forms of terrorism such as nuclear, biological or chemical terrorism and some environmental hazards that may be deemed to fall completely outside the general coverage limits of our policies or may be uninsurable or may be too expensive to justify insuring against. If any such risk were to materialize and materially adversely affect one or more of our properties, we would likely not be able to recover our losses.

We may also encounter challenges with an insurance provider regarding whether it will pay a particular claim that we believe to be covered under our policy. Should a loss in excess of insured limits or an uninsured loss occur or should we be unsuccessful in obtaining coverage from an insurance carrier, we could lose all, or a portion of, the capital we have invested in a property, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property.

We may not be able to recover fully under our existing terrorism insurance for losses caused by some types of terrorist acts, and Federal terrorism legislation does not ensure that we will be able to obtain terrorism insurance in adequate amounts or at acceptable premium levels in the future.

We obtain terrorism insurance as part of our all-risk property insurance program. However, as noted above, our all-risk policies have limitations such as per occurrence limits and sublimits which might have to be shared proportionally across participating hotels under certain loss scenarios. Also, all-risk insurers only have to provide terrorism coverage to the extent mandated by the Terrorism Risk Insurance Act (TRIA) for “certified” acts of terrorism—namely those which are committed on behalf of non-United States persons or interests. Furthermore, we do not have full replacement coverage at all of our properties for acts of terrorism committed on behalf of United States persons or interests (“noncertified” events) as our coverage for such incidents is subject to sublimits and annual aggregate limits. In addition, property damage related to war and to nuclear, biological and chemical incidents is excluded under our policies. While TRIA will reimburse insurers for losses resulting from nuclear, biological and chemical perils, TRIA does not require insurers to offer coverage for these perils and, to date, insurers are not willing to provide this coverage, even with government reinsurance. In addition, TRIA terminates on December 31, 2005, and there is no guarantee that the terrorism coverage that it mandates will be readily available or affordable thereafter. As a result of the above, there remains considerable uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks that impact our properties.

Risks of Ownership of HMC's Common Stock

There are limitations on the acquisition of HMC common stock and changes in control.

HMC's charter and bylaws, the partnership agreement of the Operating Partnership, HMC's stockholder rights plan and the Maryland General Corporation Law contain a number of provisions, the exercise of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our stockholders or OP unit holders or otherwise be in their best interests, including the following:

- **Restrictions on ownership and transfer of HMC's stock.** To maintain HMC's qualification as a REIT for Federal income tax purposes, not more than 50% in value of HMC's outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code to include some entities. In addition, a person who owns, directly or by attribution, 10% or more of an interest in a tenant of ours, or a tenant of any partnership in which we are a partner, cannot own, directly or by attribution, 10% or more of HMC's shares without jeopardizing HMC's qualification as a REIT. Unless exempted by HMC's Board of Directors, HMC's charter prohibits ownership, directly or by virtue of the attribution provisions of the Internal Revenue Code, by any person or persons acting as a group, of more than 9.8% in value or number, whichever is more restrictive, of shares of HMC's outstanding common stock, preferred stock or any other stock, each considered as a separate class or series for this purpose. Together, these limitations are referred to as the "ownership limit."

  Stock acquired or held in violation of the ownership limit will be transferred automatically to a trust for the benefit of a designated charitable beneficiary, and the person who acquired the stock in violation of the ownership limit will not be entitled to any distributions thereon, to vote those shares of stock or to receive any proceeds from the subsequent sale of the stock in excess of the lesser of the price paid for the stock or the amount realized from the sale. A transfer of shares of HMC's stock to a person who, as a result of the transfer, violates the ownership limit may be void under certain circumstances, and, in any event, would deny that person any of the economic benefits of owning shares of HMC's stock in excess of the ownership limit. These restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in our best interests to continue to qualify as a REIT.

- **Removal of board of directors.** HMC's charter provides that, except for any directors who may be elected by holders of a class or series of shares of capital stock other than common stock, directors may be removed only for cause and only by the affirmative vote of stockholders holding at least two-thirds of all the votes entitled to be cast for the election of directors. Vacancies on the Board of Directors may be filled by the concurring vote of a majority of the remaining directors (except that a vacancy resulting from an increase in the number of directors must be filled by a majority vote of the entire Board of Directors) and, in the case of a vacancy resulting from the removal of a director by the stockholders, by at least two-thirds of all the votes entitled to be cast in the election of directors.

- **Preferred shares; classification or reclassification of unissued shares of capital stock without stockholder approval.** HMC's charter provides that the total number of shares of stock of all classes that we have authority to issue is 800,000,000, initially consisting of 750,000,000 shares of common stock and 50,000,000 shares of preferred stock. The Board of Directors has the authority, without a vote of stockholders, to classify or reclassify any unissued shares of stock, including common stock into preferred stock or vice versa, and to establish the preferences and rights of any preferred or other class or series of shares to be issued. Because the Board of Directors has the power to establish the preferences and rights of additional classes or series of stock without a stockholder vote, HMC's Board of Directors may give the holders of any class or series of stock preferences, powers and rights, including voting rights, senior to the rights of holders of existing stock.

- **Consent rights of the limited partners.** Under the partnership agreement of the operating partnership, we generally will be able to merge or consolidate with another entity with the consent of partners holding limited percentage interests that are more than 50% of the aggregate percentage interests of the outstanding limited partnership interests entitled to vote on the merger or consolidation, including any limited partnership interests held by us, as long as the holders of limited partnership interests either receive or have the right to receive the same consideration as HMC's stockholders. HMC, as holder of a majority of the limited partnership interests, would be able to control the vote. Under HMC's charter, holders of at least two-thirds of HMC's outstanding shares of common stock generally must approve a merger or consolidation.
- **Maryland business combination law.** Under the Maryland General Corporation Law, specified "business combinations," including specified issuances of equity securities, between a Maryland corporation and any person who owns 10% or more of the voting power of the corporation's then outstanding shares, or an affiliate or associate of the corporation who at any time during the two year period prior to the date in question owned 10% or more of the voting power of the outstanding stock of the corporation (each, an "interested stockholder"), or an affiliate of the interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any of these specified business combinations must be approved by 80% of the votes entitled to be cast by the holders of outstanding voting shares and by two-thirds of the votes entitled to be cast by the holders of voting shares other than voting shares held by an interested stockholder unless, among other conditions, the corporation's common stockholders receive a minimum price, as defined in the Maryland General Corporation Law, for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder. HMC is subject to the Maryland business combination statute.
- **Maryland control share acquisition law.** Under the Maryland General Corporation Law, "control shares" acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by directors who are employees of the corporation. "Control shares" are voting shares which, if aggregated with all other voting shares previously acquired by the acquiror or over which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority or (3) a majority or more of the voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to specified exceptions. HMC is subject to these control share provisions of Maryland law.
- **Merger, consolidation, share exchange and transfer of HMC's assets.** Pursuant to HMC's charter, subject to the terms of any outstanding class or series of capital stock, we can merge with or into another entity, consolidate with one or more other entities, participate in a share exchange or transfer HMC's assets within the meaning of the Maryland General Corporation Law if approved (1) by HMC's Board of Directors in the manner provided in the Maryland General Corporation Law and (2) by HMC's stockholders holding two-thirds of all the votes entitled to be cast on the matter, except that any merger of us with or into a trust organized for the purpose of changing HMC's form of organization from a corporation to a trust requires only the approval of HMC's stockholders holding a majority of all votes entitled to be cast on the merger. Under the Maryland General Corporation Law, specified mergers may be approved without a vote of stockholders and a share exchange is only required to be approved by a

Maryland corporation by its board of directors if the corporation is the successor. HMC's voluntary dissolution also would require approval of stockholders holding two-thirds of all the votes entitled to be cast on the matter.

- **Certain charter and bylaw amendments.** HMC's charter contains provisions relating to restrictions on transferability of HMC's stock, fixing the size of the Board of Directors within the range set forth in the charter, removal of directors and the filling of vacancies, all of which may be amended only by a resolution adopted by the Board of Directors and approved by HMC's stockholders holding two-thirds of the votes entitled to be cast on the matter. Any amendments of these provisions of the charter (setting forth the necessary approval requirements) also would require action of the Board of Directors and the approval by stockholders holding two-thirds of all the votes entitled to be cast on the matter. As permitted under the Maryland General Corporation Law, HMC's bylaws provide that directors have the exclusive right to amend HMC's bylaws. These provisions may make it more difficult to amend HMC's charter and bylaws to alter the provisions described herein that could delay, defer or prevent a transaction or a change in control or the acquisition of HMC common stock, without the approval of the Board of Directors.
- **Stockholder rights plan.** We adopted a stockholder rights plan which provides, among other things, that when specified events occur, HMC's stockholders, other than an acquiring person, will be entitled to purchase from us a newly created class or series of junior preferred stock, subject to HMC's ownership limits described above. The preferred stock purchase rights are triggered by the earlier to occur of (1) ten days after the date of a public announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of HMC's outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 20% or more of HMC's outstanding common stock. The exercise of the preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by HMC's Board of Directors.

Shares of HMC's common stock that are or become available for sale could affect the share price.

Sales of a substantial number of shares of HMC's common stock, or the perception that sales could occur, could adversely affect prevailing market prices for HMC's common stock. In addition, holders of units of limited partnership interest in the operating partnership, whose OP units are redeemed by the operating partnership in exchange for common stock, will be able to sell those shares freely, unless the person is our affiliate and resale of the affiliate's shares is not covered by an effective registration statement. Further, a substantial number of shares of HMC's common stock have been and will be issued or reserved for issuance from time to time under our employee benefit plans, including shares of common stock reserved for options, or pursuant to securities we may issue that are convertible into shares of HMC common stock or securities (other than OP units) that the operating partnership has issued that are exchangeable for shares of our common stock. As of February 28, 2005, (i) there are approximately 21 million OP units outstanding that are redeemable, and (ii) there are outstanding $500 million aggregate principal amount of 3.25% Exchangeable Senior Debentures of the operating partnership exchangeable under certain conditions for shares of HMC common stock at an initial exchange price equivalent to $18.30 per share for a total of approximately 27 million shares (subject to adjustment for various reasons, including as a result of the payment of dividends to common stockholders) (iii) there are outstanding $492 million of 6 3/4% convertible preferred securities issued by the Host Marriott REIT Financial Trust that are convertible into shares of HMC common stock at a conversion price equivalent to $15.367 per share for a total of approximately 31 million shares. Moreover, additional shares of common stock issued by HMC would be available in the future for sale in the public markets. We can make no prediction about the effect that future sales of common stock would have on the market price of HMC common stock.

Our earnings and cash distributions will affect the market price of shares of HMC's common stock.

We believe that the market value of a REIT's equity securities is based primarily upon the market's perception of the REIT's growth potential and its current and potential future cash distributions, whether from operations, sales, acquisitions, development or refinancings, and is secondarily based upon the value of the underlying assets. For that reason, shares of HMC's common stock may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes rather than distributing the cash flow to stockholders, these retained funds, while increasing the value of our underlying assets, may negatively impact the market price of HMC's common stock. Our failure to meet the market's expectation with regard to future earnings and cash distributions would likely adversely affect the market price of HMC's common stock.

Market interest rates may affect the price of shares of HMC's common stock.

We believe that one of the factors that investors consider important in deciding whether to buy or sell shares of a REIT is the distribution rate on the shares, considered as a percentage of the price of the shares, relative to market interest rates. If market interest rates increase, prospective purchasers of REIT shares may expect a higher distribution rate. Thus, higher market interest rates could cause the market price of HMC's shares to go down.

Federal Income Tax Risks

The lower tax rate on certain dividends from regular C corporations may cause investors to hold stock in those corporations.

While corporate dividends have traditionally been taxed at ordinary income rates, dividends received by individuals through December 31, 2008 from regular C corporations generally will be taxed at the maximum capital gains tax rate of 15% as opposed to the maximum ordinary income tax rate of 35%. REIT dividends are not eligible for the lower capital gains rates, except in certain circumstances where the dividends are attributable to income that has been subject to corporate-level tax. This difference in the taxation of dividends could cause individual investors to view the stock of regular C corporations as more attractive relative to the stock of REITs. Individual investors could hold this view because the dividends from regular C corporations will generally be taxed at a lower rate while dividends from REITs will generally be taxed at the same rate as the individual's other ordinary income. We cannot predict what effect, if any, this difference in the taxation of dividends may have on the value of the stock of REITs, either in terms of price or relative to other potential investments.

To qualify as a REIT, HMC is required to distribute at least 90% of its taxable income, irrespective of its available cash or outstanding obligations.

To continue to qualify as a REIT, HMC currently is required to distribute to its stockholders with respect to each year at least 90% of its taxable income, excluding net capital gain. In addition, it will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by it with respect to the calendar year are less than the sum of 85% of its ordinary income and 95% of its capital gain net income for that year and any undistributed taxable income from prior periods less excess distributions from prior years. HMC intends to make distributions, subject to the availability of cash and in compliance with any debt covenants, to its stockholders to comply with the distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from the operating partnership. However, there are differences in timing between HMC's recognition of taxable income and its receipt of cash available for distribution due to, among other things, the seasonality of the lodging industry and the fact that some taxable income will be "phantom" income, which is taxable income that is not matched by cash flow to us. Due to some transactions entered into in years prior to the REIT conversion, HMC could recognize substantial amounts of "phantom" income. It is possible that these timing differences could require us to borrow funds or to issue additional equity to enable HMC to meet the distribution requirement and, therefore, to maintain its REIT status, and to avoid the nondeductible excise tax. In addition, because the REIT distribution requirement prevents HMC from retaining earnings, we will generally be required to refinance debt that matures with additional debt or equity. We cannot assure you that any of the sources of funds, if available at all, would be sufficient to meet HMC's distribution and tax obligations.

Adverse tax consequences would apply if HMC failed to qualify as a REIT.

We believe that HMC has been organized and has operated in such a manner so as to qualify as a REIT under the Internal Revenue Code, commencing with its taxable year beginning January 1, 1999, and HMC currently intends to continue to operate as a REIT during future years. No assurance can be provided, however, that HMC qualifies as a REIT or that new legislation, treasury regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to its qualification as a REIT or the federal income tax consequences of its REIT qualification. If HMC fails to qualify as a REIT, and any available relief provisions do not apply, it will not be allowed to take a deduction for distributions to stockholders in computing its taxable income, and it will be subject to Federal and state income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. In addition, unless entitled to statutory relief, it would not qualify as a REIT for the four taxable years following the year during which REIT qualification is lost. Any determination that HMC does not qualify as a REIT would have a materially adverse effect on our results of operations and could reduce the value of our common stock materially. The additional tax liability to us for the year, or years, in which HMC did not qualify would reduce our net earnings available for investment, debt service or distributions to our stockholders. Furthermore, HMC would no longer be required to make any distributions to stockholders as a condition to REIT qualification and all of our distributions to stockholders would be taxable as regular corporate dividends to the extent of HMC's current and accumulated earnings and profits, or "E&P." This means that stockholders taxed as individuals currently would be taxed on those dividends at capital gains rates and corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject in each case, to applicable limitations under the Internal Revenue Code. HMC's failure to qualify as a REIT also would cause an event of default under our credit facility that could lead to an acceleration of the amounts due under the credit facility, which, in turn, would constitute an event of default under our outstanding debt securities.

New legislation, enacted October 22, 2004, contained several provisions applicable to REITs, including provisions that could provide relief in the event HMC violates certain provisions of the Internal Revenue Code that otherwise would result in its failure to qualify as a REIT. We cannot assure you that these relief provisions would apply if HMC failed to comply with the REIT qualification laws. Even if the relief provisions do apply, HMC would be subject to a penalty tax of at least $50,000 for each disqualifying event in most cases.

HMC will be disqualified as a REIT at least for taxable year 1999 if it failed to distribute all of its E&P attributable to its non-REIT taxable years.

In order to qualify as a REIT, HMC cannot have at the end of any taxable year any undistributed E&P that is attributable to one of its non-REIT taxable years. A REIT has until the close of its first taxable year as a REIT in which it has non-REIT E&P to distribute its accumulated E&P. HMC was required to have distributed this E&P prior to the end of 1999, the first taxable year for which its REIT election was effective. If it failed to do this, it will be disqualified as a REIT at least for taxable year 1999. We believe that distributions of non-REIT E&P that HMC made were sufficient to distribute all of the non-REIT E&P as of December 31, 1999, but we cannot provide assurance that we met this requirement.

If our leases are not respected as true leases for Federal income tax purposes, HMC would fail to qualify as a REIT.

To qualify as a REIT, HMC must satisfy two gross income tests, under which specified percentages of its gross income must be passive income, like rent. For the rent paid pursuant to the leases, which constitutes substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for Federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. In addition, the lessees must not be regarded as related party tenants, as defined in the Internal Revenue Code. We believe that the leases will be respected as true leases for federal income tax purposes. There can be no assurance, however, that the IRS will agree with this view. We also believe that Crestline, the lessee of substantially all of our full service hotels prior to January 1, 2001, was not a related party tenant and, as a result of changes in the tax laws effective January 1, 2001, our affiliated lessee will not be treated as a related party tenant so long as it qualifies as a taxable REIT subsidiary. If the leases were not respected as true leases for federal income tax purposes or if the lessee was regarded as a related party tenant, HMC would not be able to satisfy either of the two gross income tests applicable to REITs and it would lose its REIT status. See "Risk Factors—Federal Income Tax Risks—Adverse tax consequences would apply if HMC failed to qualify as a REIT" above.

If our affiliated lessee fails to qualify as a taxable REIT subsidiary, HMC would fail to qualify as a REIT.

For our taxable years beginning on and after January 1, 2001, we are permitted to lease our hotels to a subsidiary of the operating partnership that is taxable as a corporation and that elects to be treated as a taxable REIT subsidiary. So long as any affiliated lessee qualifies as a taxable REIT subsidiary of ours, it will not be treated as "related party tenant." We believe that our affiliated lessee qualifies to be treated as a taxable REIT subsidiary for federal income tax purposes. We cannot assure you, however, that the IRS will not challenge its status as a taxable REIT subsidiary for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in disqualifying our affiliated lessee from treatment as a taxable REIT subsidiary, HMC would fail to meet the asset tests applicable to REITs and substantially all of its income would fail to qualify for the gross income tests and, accordingly, HMC would cease to qualify as a REIT. See "Risk Factors—Federal Income Tax Risks—Adverse tax consequences would apply if HMC failed to qualify as a REIT" above.

Despite HMC's REIT status, we remain subject to various taxes, including substantial deferred and contingent tax liabilities.

Notwithstanding HMC's status as a REIT, we are subject to certain Federal, state, local and foreign taxes on our income and property. In addition, HMC will be required to pay Federal income tax at the highest regular corporate rate upon its share of any "built-in gain" recognized as a result of any sale before January 1, 2009, by the operating partnership of assets, including the hotels, in which interests were acquired by the operating partnership from our predecessor and its subsidiaries as part of the REIT conversion. Built-in gain is the amount by which an asset's fair market value exceeded our adjusted basis in the asset on January 1, 1999, the first day of HMC's first taxable year as a REIT. The total amount of gain on which HMC would be subject to corporate income tax if the assets that we held at the time of the REIT conversion were sold in a taxable transaction prior to January 1, 2009 would be material to us. In addition, at the time of the REIT conversion, we expected that HMC or Rockledge Hotel Properties, Inc. or Fernwood Hotel Assets, Inc., or Rockledge and Fernwood, respectively (each of which is a taxable corporation in which the operating partnership owned a 95% nonvoting interest and, as of April, 2001, acquired 100% of the voting interests and each of which, elected to be a taxable REIT subsidiary effective January 1, 2001), likely would recognize substantial built-in gain and deferred tax liabilities in the next ten years without any corresponding receipt of cash. HMC may have to pay certain state income taxes because not all states treat REITs the same as they are treated for federal income tax purposes. We may also have to pay certain foreign taxes to the extent we own assets or conduct operations in foreign jurisdictions. The operating partnership is obligated under its partnership agreement to pay all such taxes (and any related interest and penalties) incurred by HMC, as well as any liabilities that the IRS or the tax authorities successfully may assert against HMC for corporate income taxes for taxable years prior to the time it qualified as a REIT. Our taxable REIT subsidiaries, including Rockledge and Fernwood, are taxable as corporations and will pay federal, state and local income tax on their net income at the applicable corporate rates, and foreign taxes to the extent they own assets or conduct operations in foreign jurisdictions.

If the IRS were to challenge successfully the operating partnership's status as a partnership for federal income tax purposes, HMC would cease to qualify as a REIT and suffer other adverse consequences.

We believe that the operating partnership qualifies to be treated as a partnership for federal income tax purposes. As a partnership, it is not subject to federal income tax on its income. Instead, each of its partners, including HMC, is required to pay tax on its allocable share of the operating partnership's income. No assurance can be provided, however, that the IRS will not challenge its status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating the operating partnership as a corporation for tax purposes, HMC would fail to meet the income tests and certain of the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. If the operating partnership fails to qualify as a partnership for federal income tax purposes or HMC fails to qualify as a REIT, either failure would cause an event of default under our credit facility that, in turn, could constitute an event of default under our outstanding debt securities. Also, the failure of the operating partnership to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including HMC. Finally, the classification of the operating partnership as a corporation would cause HMC to recognize gain at least equal to our "negative capital account," if any.

As a REIT, HMC is subject to limitations on its ownership of debt and equity securities.

Subject to certain exceptions a REIT is generally prohibited from owning securities in any one issuer to the extent that the value of those securities exceeds 5% of the value of the REIT's total assets or the securities owned by the REIT represent more than 10% of the issuer's outstanding voting securities or more than 10% of the value of the issuer's outstanding securities. A REIT is permitted to own securities of a subsidiary in an amount that exceeds the 5% value test and the 10% vote or value test if the subsidiary elects to be a taxable REIT subsidiary. However, a REIT may not own securities of taxable REIT subsidiaries that represent in the aggregate more than 20% of the value of the REIT's total assets.

Our taxable REIT subsidiaries are subject to special rules that may result in increased taxes.

Several Internal Revenue Code provisions ensure that a taxable REIT subsidiary is subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives if the economic arrangements between the REIT and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties.

HMC may be required to pay a penalty tax upon the sale of a hotel.

The Federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% penalty tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. We intend that we will hold the hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make occasional sales of hotels as are consistent with our investment objectives. We cannot assure you, however, that the IRS might not contend that one or more of these sales is subject to the 100% penalty tax.

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Item 8. Financial Statements and Supplementary Data

The following financial information is included on the pages indicated:

Host Marriott Corporation

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission to evaluate the effectiveness of the company's internal control over financial reporting. Management has concluded that the company's internal control over financial reporting was effective as of the end of the most recent fiscal year. KPMG LLP has issued an attestation report on management's assessment of the company's internal control over financial reporting.

Christopher J. Nassetta
President and Chief Executive Officer

W. Edward Walter
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Host Marriott Corporation:

We have audited the accompanying consolidated balance sheets of Host Marriott Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III as listed in the index as Item 15(a)(ii). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Host Marriott Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Host Marriott Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

McLean, Virginia
February 23, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Host Marriott Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Host Marriott Corporation (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2004 of Host Marriott Corporation and our report dated February 23, 2005, expressed an unqualified opinion.

KPMG LLP

McLean, Virginia
February 23, 2005

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003
(in millions, except per share amounts)

	2004	2003
ASSETS		
Property and equipment, net	$7,274	$7,085
Assets held for sale	113	73
Notes and other receivables	7	54
Due from managers	75	62
Investments in affiliates	69	74
Deferred financing costs, net	70	82
Furniture, fixtures and equipment replacement fund	151	144
Other	161	138
Restricted cash	154	116
Cash and cash equivalents	347	764
Total assets	$8,421	$8,592
LIABILITIES AND STOCKHOLDERS' EQUITY		
Debt		
Senior notes, including $491 million, net of discount of Exchangeable Senior Debentures as of December 31, 2004	$2,890	$3,180
Mortgage debt	2,043	2,205
Convertible Subordinated Debentures	492	—
Other	98	101
Total debt	5,523	5,486
Accounts payable and accrued expenses	113	108
Liabilities associated with assets held for sale	26	2
Other	156	166
Total liabilities	5,818	5,762
Interest of minority partners of Host Marriott L.P.	122	130
Interest of minority partners of other consolidated partnerships	86	89
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary whose sole assets are convertible subordinated debentures due 2026 ("Convertible Preferred Securities")	—	475
Stockholders' equity		
Cumulative redeemable preferred stock (liquidation preference $350 million), 50 million shares authorized; 14.0 million and 14.1 million shares issued and outstanding, respectively	337	339
Common stock, par value $.01, 750 million shares authorized; 350.3 million shares and 320.3 million shares issued and outstanding, respectively	3	3
Additional paid-in capital	2,953	2,617
Accumulated other comprehensive income	13	28
Deficit	(911)	(851)
Total stockholders' equity	2,395	2,136
Total liabilities and stockholders' equity	$8,421	$8,592

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2004, 2003 and 2002
(in millions, except per common share amounts)

	2004	2003	2002
REVENUES			
Rooms	$2,153	$1,914	$1,966
Food and beverage	1,141	1,042	1,041
Other	239	220	237
Total hotel sales	3,533	3,176	3,244
Rental income	106	100	101
Other income	1	12	—
Total revenues	3,640	3,288	3,345
EXPENSES			
Rooms	536	483	483
Food and beverage	856	786	772
Hotel departmental expenses	983	888	859
Management fees	145	132	143
Other property-level expenses	292	293	285
Depreciation and amortization	354	347	340
Corporate and other expenses	67	60	46
Total operating costs and expenses	3,233	2,989	2,928
OPERATING PROFIT	407	299	417
Interest income	11	11	19
Interest expense, including interest expense for the Convertible Subordinated Debentures in 2004	(483)	(488)	(458)
Net gains on property transactions	17	5	5
Loss on foreign currency and derivative contracts	(6)	(19)	(2)
Minority interest expense	(4)	(5)	(7)
Equity in losses of affiliates	(16)	(22)	(9)
Dividends on Convertible Preferred Securities	—	(32)	(32)
LOSS BEFORE INCOME TAXES	(74)	(251)	(67)
Benefit from (provision for) income taxes	10	13	(2)
LOSS FROM CONTINUING OPERATIONS	(64)	(238)	(69)
Income from discontinued operations	64	252	53
NET INCOME (LOSS)	—	14	(16)
Less: Dividends on preferred stock	(37)	(35)	(35)
Issuance costs of redeemed Class A preferred stock	(4)	—	—
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (41)	$ (21)	$ (51)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE:			
Continuing operations	$ (.31)	$ (.97)	$ (.39)
Discontinued operations	.19	.90	.20
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ (.12)	$ (.07)	$ (.19)

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2004, 2003 and 2002
(in millions)

Shares Outstanding								
Preferred	Common		Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
14.1	261.4	Balance, December 31, 2001	339	3	2,051	(779)	(5)	
—	—	Net loss	—	—	—	(16)	—	$ (16)
—	—	Other comprehensive income (loss):						
		Foreign currency translation adjustment	—	—	—	—	2	2
—	—	Foreign currency forward contracts	—	—	—	—	2	2
—	—	Unrealized loss on HM Services common stock to net income	—	—	—	—	(1)	(1)
—	—	Comprehensive loss						$ (13)
—	.5	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	8	—	—	
—	—	Dividends on preferred stock	—	—	—	(35)	—	
—	1.8	Redemptions of limited partner interests for common stock	—	—	13	—	—	
—	—	Issuance of OP Units for limited partner interests	—	—	28	—	—	
14.1	263.7	Balance, December 31, 2002	339	3	2,100	(830)	(2)	
—	—	Net income	—	—	—	14	—	$ 14
—	—	Other comprehensive income (loss):						
		Foreign currency translation Adjustment	—	—	—	—	34	34
—	—	Foreign currency forward contracts	—	—	—	—	(23)	(23)
—	—	Realized loss on foreign currency forward contracts	—	—	—	—	18	18
—	—	Unrealized gain on HM Services common stock to net income	—	—	—	—	1	1
—	—	Comprehensive income						$ 44
—	1.4	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	9	—	—	
—	—	Dividends on preferred stock	—	—	—	(35)	—	
—	4.2	Redemptions of limited partner interests for common stock	—	—	7	—	—	
—	51.0	Issuance of common stock	—	—	501	—	—	
14.1	320.3	Balance, December 31, 2003	$ 339	$ 3	$ 2,617	$ (851)	$ 28	
—	—	Net loss	—	—	—	—	—	$ —
—	—	Other comprehensive income (loss):						
		Foreign currency translation adjustment	—	—	—	—	(15)	(15)
—	—	Foreign currency forward contracts	—	—	—	—	1	1
—	—	Unrealized loss on HM Services common stock to net income	—	—	—	—	(1)	(1)
—	—	Comprehensive loss						$ (15)
—	2.4	Common stock issued for the comprehensive stock and employee stock purchase plans	—	—	21	—	—	
—	—	Dividends on common stock	—	—	—	(19)	—	
—	—	Dividends on preferred stock	—	—	—	(37)	—	
—	2.6	Redemptions of limited partner interests for common stock	—	—	14	—	—	
4.0	—	Issuance of Class E Preferred Stock	98	—	—	—	—	
(4.1)	—	Redemption of Class A Preferred Stock	(100)	—	—	(4)	—	
—	25.0	Issuance of common stock	—	—	301	—	—	
14.0	350.3	Balance, December 31, 2004	$ 337	$ 3	$ 2,953	$ (911)	$ 13	

See Notes to Consolidated Financial Statements.

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HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002
(in millions)

	2004	2003	2002
OPERATING ACTIVITIES			
Net income (loss)	$ —	$ 14	$ (16)
Adjustments to reconcile to cash provided by operations:			
Discontinued operations:			
Gain on dispositions	(52)	(65)	(12)
Depreciation	12	31	32
Depreciation and amortization	354	347	340
Amortization of deferred financing costs	16	17	16
Income taxes	(20)	(34)	—
Net gains on property transactions	(5)	(5)	(5)
Equity in losses of affiliates	16	22	9
Minority interest expense	4	5	7
Change in due from manager	(15)	17	(4)
Change in Canadian currency forward contracts	8	16	(2)
Change in accrued interest payable	9	(10)	11
Return of working capital from Marriott International	—	—	50
Changes in other assets	14	24	22
Changes in other liabilities	19	(9)	(74)
Cash provided by operating activities	360	370	374
INVESTING ACTIVITIES			
Proceeds from sales of assets, net	246	184	—
Disposition of World Trade Center hotel	—	185	—
Acquisitions	(503)	(324)	(117)
Distributions from equity investments	6	3	6
Capital expenditures:			
Renewals and replacements	(206)	(181)	(146)
Other	(44)	(20)	(34)
Return of escrow funds from Marriott International	—	—	75
Note receivable collections	47	—	—
Other investments	(47)	—	—
Cash used in investing activities	(501)	(153)	(216)
FINANCING ACTIVITIES			
Issuances of debt	837	813	—
Financing costs	(16)	(16)	(8)
Debt prepayments	(1,230)	(1,007)	(13)
Scheduled principal repayments	(61)	(52)	(63)
Issuances of common stock	301	501	1
Issuances of cumulative redeemable preferred stock, net	98	—	—
Redemption of cumulative redeemable preferred stock	(104)	—	—
Dividends on common stock	(19)	—	—
Dividends on preferred stock	(37)	(35)	(35)
Distributions to minority interests	(7)	(6)	(18)
Purchase of interest rate cap	—	—	(3)
Change in restricted cash	(38)	(12)	(10)
Cash provided by (used in) financing activities	(276)	186	(149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(417)	403	9
CASH AND CASH EQUIVALENTS, beginning of year	764	361	352
CASH AND CASH EQUIVALENTS, end of year	$ 347	$ 764	$ 361

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002
(in millions)

Supplemental schedule of noncash investing and financing activities:

During 2004, 2003 and 2002, we issued 30.1 million, 56.6 million and 2.3 million shares of common stock, respectively. Of the shares of common stock issued, approximately 2.6 million, 4.2 million and 1.8 million shares for 2004, 2003 and 2002, respectively, were issued upon the conversion of operating partnership units, or OP units, of Host Marriott, L.P. held by minority partners valued at $35 million, $41 million and $21 million, respectively.

Of the 2.3 million shares of common stock issued during 2002, 1.1 million shares were issued to acquire additional interests in the partnership owning the San Diego Marriott Hotel and Marina. This transaction resulted in an increase of $10.5 million to property and equipment and equity to reflect the fair value of the interests acquired. During April 2002, in a separate transaction, our ownership percentage in the San Diego partnership increased to 90% when the minority partners in the San Diego partnership exchanged their interests for approximately 6.9 million OP units. The transaction resulted in an increase of $56.1 million in property and equipment and a corresponding increase in interest of minority partners of Host LP to reflect the fair value of the interests acquired.

On September 22, 2004, we acquired the Scottsdale Marriott at McDowell Mountains, for a purchase price of approximately $58 million, including the assumption of approximately $34 million in mortgage debt.

During June 2003, we acquired the remaining general partner interest and the preferred equity interest held by outside partners in the JW Marriott in Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, we began consolidating the partnership and recorded $95 million of mortgage debt secured by the hotel and property and equipment of approximately $131 million.

On June 14, 2002, we acquired the Boston Marriott Copley Place in Boston, Massachusetts for a purchase price of approximately $214 million, including the assumption of approximately $97 million in mortgage debt.

During January 2002, we transferred the St. Louis Marriott Pavilion to the mortgage lender. We recorded the difference between the debt extinguished, the deferred incentive management fees forgiven and the fair value of the assets surrendered of $22 million, net of tax expense of $9 million, as discontinued operations.

See Notes to Consolidated Financial Statements.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

Host Marriott Corporation, a Maryland corporation, operating through an umbrella partnership structure, is primarily the owner of hotel properties. We operate as a self-managed and self-administered real estate investment trust, or REIT, with our operations conducted solely through an operating partnership, Host Marriott, L.P., or Host LP, or the operating partnership, and its subsidiaries. We are the sole general partner of Host LP and as of December 31, 2004, own approximately 94% of the partnership interests, which are referred to as OP units.

As of December 31, 2004, we owned, or had controlling interests in, 111 upper-upscale and luxury, full-service hotel lodging properties located throughout the United States, Toronto and Calgary, Canada and Mexico City, Mexico operated primarily under the Marriott®, Ritz-Carlton®, Hyatt®, Fairmont®, Four Seasons®, Hilton® and Westin® brand names. Of these properties, 94 are managed or franchised by Marriott International, Inc. and its subsidiaries, or Marriott International.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and controlled affiliates. We consolidate entities (in the absence of other factors determining control) when we own over 50% of the voting shares of another company or, in the case of partnership investments, when we own a majority of the general partnership interest. The control factors we consider include the ability of minority stockholders or other partners to participate in or block management decisions. Additionally, if we determine that we are an owner in a variable interest entity within the meaning of the Financial Accounting Standards Board, or FASB, revision to Interpretation No. 46, "Consolidation of Variable Interest Entities" and that our variable interest will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both, then we will consolidate the entity. All material intercompany transactions and balances have been eliminated, including the dividends and related transactions for our Class D Cumulative Redeemable Preferred Stock held by one of our wholly-owned subsidiaries.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or 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.

Accounting for the Impact of the September 11, 2001 Terrorist Acts

On December 3, 2003, we settled all outstanding issues related to the terrorist attacks of September 11, 2001 with our insurer, Marriott International and the Port Authority of New York and New Jersey for the New York Marriott World Trade Center and Financial Center hotels and received net proceeds of approximately $372 million, of which $65 million was used to repay the outstanding mortgage on the New York Marriott World Trade Center hotel. Prior to reaching this settlement, we were obligated under our ground lease to rebuild the hotel on the site and as such recorded insurance proceeds in continuing operations. We recorded business interruption proceeds, net of expenses, of $14 million and $11 million for the New York Marriott World Trade Center hotel in 2003 and 2002, respectively, and a gain on the settlement of approximately $212 million in 2003. We now consider the New York World Trade Center hotel to be abandoned and the gain on disposition and related business interruption income, net of expenses, for that hotel have been reclassified to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets."

The New York Financial Center hotel was also damaged in the attacks and, as a result, we recorded business interruption proceeds, net of expenses, of approximately $3 million and $6 million in room revenues in the consolidated statement of operations in 2003 and 2002, respectively.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per common share is computed by dividing net income (loss) available to common stockholders as adjusted for potentially dilutive securities, by the weighted average number of shares of common stock outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, those preferred OP units held by minority partners, other minority interests that have the option to convert their limited partnership interests to common OP units, the Convertible Subordinated Debentures and the Exchangeable Senior Debentures. No effect is shown for any securities that are anti-dilutive.

	Year ended December 31,								
	2004			2003			2002		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
	(in millions, except per share amounts)								
Net income (loss)	$ —	337.3	$ —	$ 14	281.0	$ .05	$ (16)	263.0	$ (.06)
Dividends on preferred stock	(37)	—	(.11)	(35)	—	(.12)	(35)	—	(.13)
Issuance costs of redeemed Class A preferred stock	(4)	—	(.01)	—	—	—	—	—	—
Basic and diluted loss available to common stockholders	$ (41)	337.3	$ (.12)	$ (21)	281.0	$ (.07)	$ (51)	263.0	$ (.19)

Property and Equipment

Property and equipment is recorded at cost. For newly developed properties, cost includes interest, ground rent and real estate taxes incurred during development and construction. Replacements and improvements and capital leases are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and three to ten years for furniture and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

Gains on sales of properties are recognized at the time of sale or deferred to the extent required by GAAP. Deferred gains are recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to us.

We assess impairment of our real estate properties based on whether it is probable that estimated undiscounted future cash flows from each individual property are less than its net book value. If a property is impaired, a loss is recorded for the difference between the fair value and net book value of the hotel.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We will classify a hotel as held for sale in the period in which we have made the decision to dispose of the hotel, a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash and no significant financing contingencies exist which could prevent the transaction from being completed in a timely manner. If these criteria are met, we will record an impairment loss if the fair value less costs to sell is lower than the carrying amount of the hotel and will cease incurring depreciation. We will classify the loss, together with the related operating results, as discontinued operations on our consolidated statement of operations and classify the assets and related liabilities as held for sale on the balance sheet.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents.

Restricted Cash

Restricted cash includes reserves for debt service, real estate taxes, insurance, furniture and fixtures, as well as cash collateral and excess cash flow deposits due to mortgage debt agreement restrictions and provisions.

Minority Interest

The percentage of the operating partnership owned by third parties is presented as interest of minority partners of Host LP in the consolidated balance sheets and was $122 million and $130 million as of December 31, 2004 and 2003, respectively. Third party partnership interests in consolidated investments of the operating partnership that have finite lives are included in interest of minority partners of other consolidated partnerships in the consolidated balance sheets and totaled $83 million and $86 million at December 31, 2004 and 2003, respectively. Third party partnership interests in consolidated investments that have infinite lives are also included in interest of minority partners of other consolidated partnerships in the consolidated balance sheets and totaled $3 million at December 31, 2004 and 2003.

Income Taxes

We account for income taxes in accordance with SFAS 109 “Accounting for Income Taxes.” Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

We have elected to be treated as a REIT under the provisions of the Internal Revenue Code and, as such, are not subject to federal income tax, provided we distribute all of our taxable income annually to our stockholders and comply with certain other requirements. In addition to paying federal and state taxes on any retained income, we are subject to taxes on “built-in-gains” on sales of certain assets. Additionally, our consolidated taxable REIT subsidiaries are subject to Federal, state and foreign income tax. The consolidated income tax provision or benefit includes the tax provision related to the operations of the taxable REIT subsidiaries, Federal and state taxes on undistributed taxable income, and foreign taxes at the operating partnership, as well as each of their respective subsidiaries.

Deferred Charges

Financing costs related to long-term debt are deferred and amortized over the remaining life of the debt.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign Currency Translation

As of December 31, 2004, our foreign operations consist of four properties located in Canada and one property located in Mexico. The operations of these properties are maintained in the local currency and then translated to U.S. dollars using the average exchange rates for the period. The assets and liabilities of the properties are translated to U.S. dollars using the exchange rate in effect at the balance sheet date. The resulting translation adjustments are reflected in accumulated other comprehensive income.

Revenues

Our consolidated results of operations reflect revenues and expenses of our hotels. Revenues are recognized when the services are provided.

Other Comprehensive Income (Loss)

The components of total accumulated other comprehensive income (loss) in the balance sheet are as follows (in millions):

	2004	2003
Unrealized gain on HM Services common stock	$ 5	$ 6
Foreign currency forward contracts	—	(1)
Foreign currency translation	8	23
Total accumulated other comprehensive income	$13	$28

Derivative Instruments

We have interest rate swaps and interest rate caps which are considered derivative instruments. If the requirements for hedge accounting are met, amounts paid or received under these agreements are recognized over the life of the agreements as adjustments to interest expense, and the fair value of the derivatives is recorded on the accompanying balance sheet, with offsetting adjustments or charges recorded to the underlying debt. Otherwise the instruments are marked to market, and the gains and losses from the changes in the market value of the contracts are recorded in loss on foreign currency and derivative contracts. Upon early termination of an interest rate swap, gains or losses are deferred and amortized as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap.

We are also subject to exposure from fluctuations in foreign currencies relating to our properties located in Canada and in Mexico City. We have purchased currency forward contracts related to the Canadian properties, which are considered derivative instruments. Gains and losses on contracts that meet the requirements for hedge accounting are recorded on the balance sheet at fair value, with offsetting changes recorded to accumulated other comprehensive income. At December 31, 2004 and 2003, these contracts did not meet the requirements for hedge accounting and have been marked to market each period and included in loss on foreign currency and derivative contracts in the accompanying statement of operations. See Note 4 for further discussion of these contracts.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We maintain cash and cash equivalents with various high credit-quality financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any one institution.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting for Stock-Based Compensation

At December 31, 2004, we maintained two stock-based employee compensation plans, which are described more fully in Note 8. Prior to 2002, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Effective January 1, 2002, we adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” or SFAS 123, prospectively to all employee awards granted, modified or settled after January 1, 2002. Awards under our employee stock option plan generally vest over four years. Therefore, the cost related to stock-based employee compensation included in the determination of net income or loss for 2004, 2003 and 2002 is less than that which would have been recognized if the fair value based method had been applied to these awards since the original effective date of SFAS 123. The adoption of SFAS 123 did not change the calculation of stock-based employee compensation costs for shares granted under our deferred stock and restricted stock plans. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the fair value based method had been applied to all of our outstanding and unvested awards in each period.

	Year Ended December 31,		
	2004	2003	2002
	(in millions, except per share amounts)		
Net income (loss), as reported	$ —	$ 14	$ (16)
Add: Total stock-based employee compensation expense included in reported net income (loss), net of related tax effects	24	16	5
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(25)	(16)	(6)
Pro forma net income (loss)	$ (1)	$ 14	$ (17)
Loss per share			
Basic and diluted—as reported	$ (.12)	$ (.07)	$ (.19)
Basic and diluted—pro forma	$ (.12)	$ (.07)	$ (.20)

Application of New Accounting Standards

During November 2004, FASB ratified the Emerging Issues Task Force, or EITF, on EITF Issue No. 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share.” EITF 04-8 requires contingently convertible debt instruments to be included in diluted earnings per share, if dilutive, regardless of whether a market price contingency for the conversion of the debt into common shares or any other contingent factor has been met. Prior to this consensus, such instruments were excluded from the calculation until one or more of the contingencies were met. EITF 04-8 is effective for reporting periods ending after December 15, 2004, and does require restatement of prior period earnings per share amounts. As a result, we will include the common shares that are issuable from the conversion of the Exchangeable Senior Debentures, if dilutive, in our diluted earnings (loss) per share.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, (“FAS 123R”), which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in FAS 123. The provisions of FAS 123R are effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The adoption of this standard in 2005 will not have a material effect on our consolidated financial position and results of operations.

Reclassifications

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

2. Property and Equipment

Property and equipment consists of the following as of December 31:

	2004	2003
	(in millions)	
Land and land improvements	$ 826	$ 786
Buildings and leasehold improvements	7,922	7,608
Furniture and equipment	1,091	1,062
Construction in progress	85	55
	9,924	9,511
Less accumulated depreciation and amortization	(2,650)	(2,426)
	$ 7,274	$ 7,085

3. Investments in Affiliates

We own investments in voting interest entities which we do not consolidate and, accordingly, are accounted for under the equity method of accounting. The debt of these affiliates is non-recourse to, and not guaranteed by, us. Investments in affiliates consists of the following:

	As of December 31, 2004			
	Ownership Interests	Our Investment	Debt	Assets
		(in millions)		
Host Marriott Financial Trust	100%	$ 17	$ 475	$492 million of convertible subordinated debentures
CBM Joint Venture LLC	50%	33	$ 898	120 Courtyard hotels
Tiburon Golf Ventures, L.P.	49%	19	—	36-hole golf club
Other	1%	—	—	Two full-service hotels
Total		$ 69	$1,373	

	As of December 31, 2003			
	Ownership Interests	Our Investment	Debt	Assets
		(in millions)		
CBM Joint Venture LLC	50%	$ 54	$ 901	120 Courtyard hotels
Tiburon Golf Ventures, L.P.	49%	20	—	36-hole golf club
Other	1%-49%	—	—	Three full-service hotels
Total		$ 74	$ 901	

Due to the implementation of FIN 46R, we were required to deconsolidate the accounts of the Host Marriott Financial Trust (the “Trust”), which was created solely to issue 11 million shares of 6 3/4% convertible quarterly income preferred securities (the "Convertible Preferred Securities"). This resulted in our recognizing the $492 million in the 6 3/4% convertible subordinated debentures due December 2026 (the "Convertible Subordinated Debentures") issued by the Trust as debt, eliminating the $475 million of Convertible Preferred Securities previously classified in the mezzanine section of our balance sheet and recognizing, as an equity investment, the $17 million invested in the Trust. Additionally, we have classified the related payments as interest expense on our consolidated statements of operations. For further information on the Trust and the Convertible Preferred Securities, see Note 4.

CBM Joint Venture LLC ("CBM Joint Venture") is a joint venture with Marriott International that collectively owns, through two limited partnerships, 120 limited service hotels. On December 15, 2004, we announced the signing of a purchase and sale agreement whereby a third party will acquire approximately 85% of our interest in the CBM Joint Venture for approximately $92 million.

As of December 31, 2004, the CBM Joint Venture had approximately $898 million of debt comprised of first mortgage loans secured by the properties owned by each of the two partnerships, senior notes secured by the ownership interest in one partnership and mezzanine debt. The lender of the mezzanine debt is an affiliate of Marriott International. None of the debt is recourse to, or guaranteed by, us or any of our subsidiaries. Each of CBM's Joint Venture's 120 hotels is operated by Marriott International pursuant to long-term management agreements. We own a 50% non-controlling interest in the joint venture and record the investment using the equity method. We did not receive any distributions from this investment during 2004, 2003 or 2002.

We have a 49% limited partner interest in Tiburon Golf Ventures, L.P., which owns the golf club surrounding The Ritz-Carlton, Naples Golf Resort. Cash distributions from this investment were approximately $6 million, $1 million and $1 million in 2004, 2003 and 2002, respectively.

During June 2003, we acquired the remaining general partner interest and preferred equity interest held by outside partners in the JWDC Limited Partnership, which owns the JW Marriott Hotel, a 772-room hotel in Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, effective June 20, 2003, we consolidated the partnership, and recorded property and equipment of approximately $131 million and $95 million in mortgage debt.

We own minority interests in three partnerships that directly or indirectly own two hotels. The total carrying value of these partnerships is less than $500,000, and we do not have any guarantees or commitments in relation to these partnerships and all of the debt is non-recourse to us. On December 30, 2004, we sold our 49% interest in Duna Szalloda Rt., a partnership that owns the Budapest Marriott hotel, for approximately $1 million.

Combined summarized balance sheet information as of December 31 for our affiliates follows:

	2004	2003
	(in millions)	
Property and equipment, net	$1,049	$1,021
Convertible subordinated debentures due from Host Marriott Corporation	492	—
Other assets	77	131
Total assets	$1,618	$1,152
Debt	$ 898	$ 901
Other liabilities	106	86
Convertible Preferred Securities	475	—
Equity	139	165
Total liabilities and equity	$1,618	$1,152

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Combined summarized operating results for our affiliates for the years ended December 31 follows:

	2004	2003	2002
		(in millions)	
Total revenues	$ 441	$ 427	$ 526
Operating expenses			
Expenses	(325)	(318)	(368)
Depreciation and amortization	(57)	(58)	(68)
Operating profit	59	51	90
Interest income	33	—	—
Interest expense	(92)	(94)	(108)
Dividends on Convertible Preferred Securities	(32)	—	—
Net loss	$ (32)	$ (43)	(18)

4. Debt

Debt consists of the following:

	December 31,	
	2004	2003
	(in millions)	
Series B senior notes, with a rate of 7 7/8% due August 2008	$ 304	$1,196
Series C senior notes, with a rate of 8.45% due December 2008	—	218
Series E senior notes, with a rate of 8 3/8% due February 2006	300	300
Series G senior notes, with a rate of 9 1/4% due October 2007	243	244
Series I senior notes, with a rate of 9 1/2% due January 2007	468	484
Series J senior notes, with a rate of 7 1/8% due November 2013	—	725
Series K senior notes, with a rate of 7 1/8% due November 2013	725	—
Series L senior notes, with a rate of 7% due August 2012	346	—
Exchangeable Senior Debentures with a rate of 3.25% due 2024	491	—
Senior notes, with an average rate of 9.7% maturing through 2012	13	13
Total senior notes	2,890	3,180
Mortgage debt (non-recourse) secured by $2.9 billion of real estate assets, with an average rate of 7.7% and 7.8% at December 31, 2004 and 2003, respectively, maturing through February 2023 (1)	2,043	2,205
Credit facility	—	—
Convertible Subordinated Debentures with a rate of 6 3/4% due December 2026	492	—
Other	98	101
Total debt	$5,523	$5,486

(1) Excludes $20 million of mortgage debt related to the Hartford Marriott Farmington, that was reclassified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.

Senior Notes

We have various series of senior notes outstanding, all of which have been issued under indentures that contain certain financial covenants that, in the event of a default, would prohibit us from incurring additional indebtedness. These covenants include a consolidated coverage ratio of EBITDA-to-interest expense of 2.0 to 1.0, which limits our ability to incur additional debt and make dividend payments except to the extent required to maintain our REIT status. Interest on our senior notes is payable semiannually. The Series J, Series K and Series L indenture contain certain provisions that allow for additional flexibility to incur debt, utilize asset sale proceeds, make certain investments and pay dividends on our preferred stock. However, these provisions will only go into effect once all pre-Series J senior notes are repaid or the pre-Series J indenture has been amended to allow for these same provisions. As of December 31, 2004, we are in compliance with our senior notes covenants.

The face amount of our outstanding senior notes as of December 31, 2004 and 2003 was $2.9 billion and $3.2 billion, respectively. The outstanding senior notes balance as of December 31, 2004 and 2003 includes discounts of approximately $14 million and $4 million, respectively, and fair value adjustments for interest rate swap agreements of approximately $19 million and $37 million, respectively, that are discussed in further detail below.

Issuances. On August 4, 2004, we issued $350 million of 7% Series L senior notes and received net proceeds of $345 million after discounts, underwriting fees and expenses. The Series L senior notes mature on August 15, 2012 and are equal in right of payment with all of our other senior indebtedness. Interest is payable semiannually in arrears on February 15 and August 15 of each year beginning on February 15, 2005. On September 2, 2004, we used the net proceeds from the issuance of the Series L senior notes and available cash to redeem $336 million of our 7 7/8% Series B senior notes, which is discussed below.

In October 2003, we issued $725 million of 7 1/8% Series J senior notes due in 2013. The proceeds were used to redeem $429 million of our existing Series A senior notes and $282 million of our existing Series C senior notes, which is discussed below. In February 2004, the Series J senior notes were exchanged for $725 million of 7 1/8% Series K senior notes. The terms of the Series K senior notes are substantially identical to the terms of the Series J notes, except that the Series K senior notes are registered under the Securities Act of 1933 and are, therefore, freely transferable.

Repayments. During 2004, we redeemed a total of $895 million of our Series B senior notes and $218 million of our Series C senior notes, both of which were scheduled to mature in 2008. The Series B senior note redemptions were funded through the proceeds from issuance of our Series L senior notes and the proceeds from issuance of the Exchangeable Senior Debentures (discussed below). The redemption of our Series C senior notes was funded by the proceeds from the insurance settlement for the Marriott World Trade Center hotel. The terms of our senior notes require the payment of a call premium to holders in exchange for the right to retire this debt in advance of its maturity date. We recorded a loss of approximately $54 million on the early extinguishment of debt in 2004, which includes the payment of the call premium and the acceleration of related deferred financing fees. During 2003, we redeemed approximately $790 million of senior notes, $711 million of which were redeemed with the proceeds from issuance of the Series J senior notes. We recorded a loss of approximately $30 million on the early extinguishment of debt in 2003, which includes the payment of the call premium and the acceleration of the original issue discounts and related deferred financing fees. The debt prepayment losses are included in interest expense in the accompanying statements of operations.

Exchangeable Senior Debentures. On March 16, 2004, we issued $500 million of 3.25% Exchangeable Senior Debentures and received net proceeds of $484 million, after discounts, underwriting fees and expenses. The Exchangeable Senior Debentures mature on April 15, 2024 and are equal in right of payment with all of our unsubordinated debt. Interest is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2004. We can redeem for cash all, or part of, the Exchangeable Senior Debentures at any time subsequent to April 19, 2009 upon 30 days notice at the applicable redemption price as set forth in the indenture. Holders have the right to require us to repurchase the Exchangeable Senior Debentures on April 15, 2010, April 15, 2014 and April 15, 2019 at the issue price. The Exchangeable Senior Debentures are exchangeable into shares of our common stock at an initial rate of 54.6448 shares for each $1,000 of principal amount of the debentures for a total of approximately 27 million shares, which is equivalent to an initial exchange price of $18.30 per share of our common stock. The exchange rate is adjusted for, among other things, the payment of dividends to our common stockholders. Holders may exchange their Exchangeable Senior Debentures prior to maturity under certain conditions, including at any time at which the closing sale price of our common stock is more than 120% of the exchange price per share, currently, for at least 20 of 30 trading days. The Exchangeable Senior Debentures and the common stock issuable upon exchange of the debentures have not been registered under the Securities Act and may not be offered or sold except to qualified institutional buyers, as defined.

Convertible Subordinated Debentures. Host Marriott Financial Trust, a wholly owned subsidiary, holds approximately 9.5 million shares of 6 3/4% convertible quarterly income preferred securities, with a liquidation preference of $50 per share (for a total liquidation amount of $475 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Trust. The payment of distributions by the Trust, payments on liquidation of the Trust, or the redemption of the Convertible Preferred Securities are guaranteed by us. This guarantee, when taken together with our obligations under the indenture pursuant to which the Convertible Subordinated Debentures were issued provides a full and unconditional guarantee of amounts due on the Convertible Preferred Securities. Proceeds from the issuance of the Convertible Preferred Securities were invested in the Convertible Subordinated Debentures issued by us. The Trust exists solely to issue the Convertible Preferred Securities and its own common securities (the “Common Securities”) and invest the proceeds therefrom in the Convertible Subordinated Debentures, which is its sole asset. Separate financial statements of the Trust are not presented because of our guarantee described above; our management has concluded that such financial statements are not material to investors as the Trust is wholly owned and essentially has no independent operations.

Each of the Convertible Preferred Securities and the related Convertible Subordinated Debentures are convertible at the option of the holder into shares of our common stock at the rate of 3.2537 shares per Convertible Preferred Security for a total of approximately 31 million shares (equivalent to a conversion price of $15.367 per share of our common stock). The Issuer will only convert Convertible Subordinated Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. The conversion ratio and price have been adjusted to reflect various transactions including the REIT conversion.

Holders of the Convertible Preferred Securities are entitled to receive preferential cumulative cash distributions at an annual rate of 6 3/4% payable quarterly in arrears. The distribution rate and the distribution and other payment dates for the Convertible Preferred Securities correspond to the interest rate and interest and other payment dates on the Convertible Subordinated Debentures. We may defer interest payments on the Convertible Subordinated Debentures for a period not to exceed 20 consecutive quarters. If interest payments on the Convertible Subordinated Debentures are deferred, so too are payments on the Convertible Preferred Securities. Under this circumstance, we will not be permitted to declare or pay any cash distributions with respect to our capital stock or debt securities that rank pari passu with or junior to the Convertible Subordinated Debentures.

Subject to certain restrictions, the Convertible Preferred Securities are redeemable at the Trust’s option upon any redemption by us of the Convertible Subordinated Debentures after December 2, 1999. Upon repayment at maturity or as a result of the acceleration of the Convertible Subordinated Debentures upon the occurrence of a default, the Convertible Preferred Securities are subject to mandatory redemption.

In connection with the REIT conversion, the Host LP assumed primary liability for repayment of the Convertible Subordinated Debentures underlying the Convertible Preferred Securities. Upon conversion by a

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Convertible Preferred Securities holder, we will issue shares of our common stock, which will be delivered to such holder. Upon the issuance of such shares by us, the operating partnership will issue to us a number of OP units equal to the number of shares of our common stock issued in exchange for the Convertible Subordinated Debentures.

In December 2003, the FASB issued a revision to FIN No. 46 "*Consolidation of Variable Interest Entities*" ("FIN 46R"). Under this guidance, the Trust is considered to be a special purpose entity because its activities are so restricted that we, the sole equity holder, lack the ability to make decisions about the Convertible Preferred Securities Trust's activities through voting or similar rights.

We were required to apply the provisions of FIN 46R to the Convertible Preferred Securities Trust in our first quarter of 2004. Under FIN 46R we are not the primary beneficiary and, accordingly, we were required to deconsolidate the accounts of the Trust. This resulted in our recognizing the $492 million in Convertible Subordinated Debentures issued by the Trust as debt, eliminating the $475 million of Convertible Preferred Securities previously classified in the mezzanine section of our balance sheet and recognizing, as an equity investment, the $17 million invested in the Trust. Additionally, we have classified the related interest payments as interest expense.

Amended and Restated Credit Facility. On September 10, 2004, we entered into an amended and restated credit facility (the "Credit Facility") with Deutsche Bank Trust Company Americas, as Administrative Agent, Bank of America, N.A., as Syndication Agent, Citicorp North America Inc., Société Générale and Calyon New York Branch, as Co-Documentation Agents and certain other lenders. The Credit Facility amends our prior credit facility and provides aggregate revolving loan commitments in the amount of $575 million with an option to increase the amount of the facility by up to $100 million to the extent that any one or more lenders, whether or not currently party to the Credit Facility, commits to be a lender for such amount. The Credit Facility also includes sub-commitments for the issuance of letters of credit in an aggregate amount of $10 million and loans to our Canadian subsidiaries in Canadian Dollars in an aggregate amount of $150 million. The Credit Facility has an initial scheduled maturity in September 2008. We have an option to extend the maturity for an additional year if certain conditions are met at the time of the initial scheduled maturity. Interest on borrowings under the Credit Facility will be calculated based on a spread over LIBOR ranging from 2.00% to 3.75%. The rate will vary based on our leverage ratio. We are required to pay a quarterly commitment fee that will vary based on the amount of unused capacity under the Credit Facility. Currently, the commitment fee is .55% on an annual basis. As of February 23, 2005, we have not drawn on the Credit Facility.

Mortgage Debt

All of our mortgage debt is recourse solely to specific assets except for fraud, misapplication of funds and other customary recourse provisions. As of December 31, 2004, we have 28 assets that are secured by mortgage debt, with a weighted average interest rate of 7.7%. Ten of these assets are secured by mortgage debt that contains restrictive covenants that require the mortgage servicer or lender to retain and hold in escrow the cash flow after debt service when it declines below specified operating levels. The impact of these covenants is discussed below.

Eight of our hotel properties secure a $571 million mortgage loan that is the sole asset of a trust that issued commercial mortgage pass-through certificates, which we refer to as the CMBS Loan. These hotels securing the CMBS Loan are the New York Marriott Marquis, the San Francisco Airport Hyatt Regency, the Cambridge Hyatt Regency, the Reston Hyatt Regency, the Boston Hyatt Regency, The Drake Hotel New York, the Westin Buckhead Atlanta, and the Swissôtel Chicago, which we refer to as the CMBS Portfolio. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Portfolio after payment of debt service (approximately $64 million) if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. This provision was triggered beginning in the third quarter of 2002 and will remain in effect until the CMBS Portfolio generates the necessary minimum cash flow for two consecutive quarters, at which point, the cash that has been escrowed will be returned to us. As of December 31, 2004 and 2003, approximately $37 million and $15 million, respectively, of cash was escrowed.

On July 12, 2002, we modified the terms of the mortgage debt secured by our four Canadian properties. Under the terms of this modification, we agreed to escrow the excess cash flow from these hotels on a retroactive basis effective December 29, 2001. In April 2003, approximately $7 million of the cash escrowed in accordance with the loan was applied to the outstanding balance of the indebtedness and approximately $2 million was released to us. In July 2003, we entered into an agreement with the lenders to further modify certain covenants so that we would not be required to make additional prepayments at that time. The terms of the modification required us to provide $10 million of cash collateral and pay an additional 25 basis points of interest on the loan. On December 29, 2003, we made a partial repayment of $32 million. In conjunction with the repayment, one of the hotels and the $10 million was released from the collateral in 2003. On December 15, 2004, we repaid an additional $34 million repayment and an additional hotel was released from the collateral. As of December 31, 2004, approximately $7 million was escrowed. There were no amounts escrowed at December 31, 2003.

In addition to the prepayments of the mortgage debt secured by our Canadian properties, during the first quarter of 2004 we prepaid $82 million dollars of mortgage debt secured by four of our properties. The prepayment of this debt was made with proceeds from the sale of assets.

In conjunction with the purchase of the Scottsdale Marriott at McDowell Mountains in September 2004, we assumed the outstanding mortgage debt of approximately $34 million. The debt has a fixed rate of interest equal to 6.08% and matures in on December 1, 2008.

On September 9, 2003, we refinanced the $95 million mortgage debt secured by the JW Marriott in Washington, D.C. with an $88 million floating-rate mortgage loan with an interest rate of one-month LIBOR plus 210 basis points (4.5% at December 31, 2004). Although the loan matures in 2005, we may extend the term of the loan for three one-year periods upon satisfaction of certain conditions (we must purchase an interest rate cap to obtain the first one-year extension and the two remaining extensions are subject to certain debt service coverage levels). The loan may be prepaid beginning in May 2004, and no prepayment penalty will be assessed for any prepayments made after March 2005. We also purchased an interest rate cap at the inception of the loan, as discussed below.

In January 2003, we prepaid $17 million of mortgage debt related to two of our Ritz-Carlton properties. We did not incur any prepayment penalties as a result of this debt extinguishment. The loss on the early extinguishment of debt related to the write-off of deferred financing fees, which was minimal, is included in interest expense in the accompanying statements of operations.

Derivative Instruments

The mortgage loan on our Canadian properties is denominated in U.S. dollars and the functional currency of the Canadian subsidiaries is the Canadian dollar. At the time of the origination of the loan, each of the subsidiaries entered into 60 separate currency forward contracts to buy U.S. dollars at a fixed price. These forward contracts hedge the currency exposure of converting Canadian dollars to U.S. dollars on a monthly basis to cover debt service payments, including the final balloon payment. These contracts were designated as cash flow hedges of the debt service and balloon payment and were recorded at fair value on the balance sheet with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

offsetting changes recorded in accumulated other comprehensive income. During 2003, we prepaid approximately $39 million of the loan and terminated the foreign currency contracts equal to the prepayments for a payment of approximately $8 million. As a result, substantially all of the forward currency contracts were deemed ineffective for accounting purposes and we recorded a loss on the contracts of approximately $18 million in 2003, which is included in "Loss on foreign currency and derivative contracts" in the accompanying consolidated statement of operations. Subsequent to the prepayment date, we record the increase or decrease in the fair value of the outstanding forward currency contracts in net income (loss) each period. In December 2004, we made an additional $34 million prepayment on the loan and, in early 2005, we terminated the foreign currency contracts equal to the prepayment for a payment of approximately $8 million. The fair value of the contracts on December 31, 2004 and 2003 was approximately $(20) million and $(12) million, respectively. We also purchased an interest rate cap for approximately $0.4 million which caps the floating interest rate at 10.75% based on a notional amount ($48.3 million). The cap is a derivative that is marked to market with any resulting gains or losses recorded in loss on foreign currency and derivative contracts in the current period. The fair value of the interest rate cap was zero and $0.1 million, respectively, at December 31, 2004 and 2003.

On August 21, 2003, we entered into two four-year interest rate swap agreements, which mature October 2007, effectively converting our Series G senior notes to floating-rate debt. Under the swaps, we receive fixed-rate payments of 9.25% and we make floating-rate payments based on six-month LIBOR plus 590 basis points (8.1% at December 31, 2004) on a $242 million notional amount, which is approximately equal to the current amount of outstanding Series G senior notes. We have designated the interest rate swaps as fair value hedges for both financial reporting and tax purposes and the amounts paid or received under the swap agreements will be recognized over the life of the agreements as an adjustment to interest expense. Changes in the fair value of the swaps and our Series G senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of these interest rate swaps was $1 million and $2 million at December 31, 2004 and 2003, respectively.

On December 20, 2001, we entered into a 5-year interest rate swap agreement, which was effective on January 15, 2002 and matures in January 2007, effectively converting our Series I senior notes to floating rate debt. Under the swap, we receive fixed-rate payments of 9.5% and pay floating-rate payments based on one-month LIBOR plus 450 basis points (6.9% at December 31, 2004) on a $450 million notional amount, which is equal to the current amount of outstanding Series I senior notes. We have designated the interest rate swap as a fair value hedge for both financial reporting and tax purposes and the amounts paid or received under the swap agreement will be recognized over the life of the agreement as an adjustment to interest expense. Changes in the fair value of the swap and the Series I senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of this interest rate swap at December 31, 2004 and 2003 was $18 million and $34 million, respectively.

In connection with the refinancing of the mortgage debt secured by the JW Marriott, Washington, D.C. in September 2003, we purchased an interest rate cap with a notional amount of $88 million, which caps the floating interest rate at 8.1% for the first two years of the loan. The cap represents a derivative that is marked to market and the gains and losses from changes in the market value of the cap are recorded in loss on foreign currency and derivative contracts in the current period. The fair value of the interest rate cap was zero at December 31, 2004 and 2003.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Aggregate Debt Maturities

Aggregate debt maturities at December 31, 2004 are as follows (in millions) (1):

2005	$ 70
2006	682
2007	873
2008	599
2009	753
Thereafter	2,532
	5,509
Fair value adjustment for interest rate swaps	19
Discount on senior notes	(14)
Capital lease obligations	9
	$5,523

(1) Aggregate debt maturities exclude the $20 million of mortgage debt related to the Hartford Marriott Farmington, that was classified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.

Interest

Cash paid for interest, net of amounts capitalized, was $453 million in 2004, $468 million in 2003 and $449 million in 2002. During 2004, 2003 and 2002, we capitalized $3 million, $2 million and $2 million of interest expense. We recorded losses, which have been included in interest expense on our consolidated statement of operations, during 2004 and 2003, of approximately $55 million and $33 million, respectively, on the early extinguishment of debt, which includes prepayment premiums and the acceleration of the related discounts and deferred financing costs. Deferred financing costs, which are included in other assets, amounted to $70 million and $82 million, net of accumulated amortization, as of December 31, 2004 and 2003, respectively. Amortization of deferred financing costs totaled $16 million, $17 million, and $16 million in 2004, 2003 and 2002, respectively.

Amortization of property and equipment under capital leases totaled $2 million, $3 million and $3 million in 2004, 2003 and 2002, respectively, and is included in depreciation and amortization on the accompanying consolidated statements of operations.

5. Stockholders' Equity

Seven hundred fifty million shares of common stock, with a par value of $0.01 per share, are authorized, of which 350.3 million and 320.3 million were outstanding as of December 31, 2004 and 2003, respectively. Fifty million shares of no par value preferred stock are authorized, with 14.0 million shares outstanding as of December 31, 2004 and 2003.

Dividends. Our policy on common dividends is generally to distribute at least 100% of our taxable income, unless otherwise contractually restricted. For our preferred dividends, we will generally pay the quarterly dividend, regardless of the amount of taxable income, unless similarly contractually restricted. While we are not currently restricted in our ability to pay dividends, during the second half of 2002 and through the first quarter of 2004 we were limited in our ability to pay dividends, except to the extent necessary to maintain our REIT status.

The table below presents the amount of common and preferred dividends declared as follows:

	2004	2003	2002
Common stock	$ .05	$ —	$ —
Class A preferred stock 10% (1)	1.38	2.50	2.50
Class B preferred stock 10%	2.50	2.50	2.50
Class C preferred stock 10%	2.50	2.50	2.50
Class E preferred stock 8 7/8%	1.37	—	—

(1) We redeemed all of the outstanding shares of the Class A preferred stock in August 2004.

Common Stock and OP Units. During June 2004, October 2003 and August 2003, we sold 25.0 million, 23.5 million and 27.5 million shares of our common stock, respectively, at a price to the public of $12.12, $10.75 and $9.25 per share, respectively. The net proceeds from the sales were $301 million, $250 million and $251 million, respectively, after payment of the underwriting discount and offering expenses.

Preferred Stock. We currently have three classes of publicly-traded preferred stock outstanding: 4,000,000 shares of 10% Class B preferred stock; 5,980,000 shares of 10% Class C preferred stock and 4,034,400 shares of 8 7/8% Class E preferred shares. Holders of all classes of the preferred stock are entitled to receive cumulative cash dividends at their respective rate per annum of the $25.00 per share liquidation preference and are payable quarterly in arrears. After April 29, 2005, March 27, 2006, and June 2, 2009, we have the option to redeem the Class B preferred stock, Class C preferred stock and Class E preferred stock, respectively, for $25.00 per share, plus accrued and unpaid dividends to the date of redemption. The preferred stock classes rank senior to the common stock and the authorized Series A junior participating preferred stock (discussed below), and on a parity with each other. The preferred stockholders generally have no voting rights. Accrued preferred dividends at December 31, 2004 and 2003 were $8 million and $9 million, respectively.

Stockholders Rights Plan. In November 1998, the Board of Directors adopted a stockholder rights plan (as amended December 24, 1998) under which a dividend of one preferred stock purchase right was distributed for each outstanding share of our common stock. Each right when exercisable entitles the holder to buy 1/1,000th of a share of a Series A junior participating preferred stock of ours at an exercise price of $55 per share, subject to adjustment. The rights are exercisable 10 days after a person or group acquired beneficial ownership of at least 20%, or began a tender or exchange offer for at least 20%, of our common stock. Shares owned by a person or group on November 3, 1998 and held continuously thereafter are exempt for purposes of determining beneficial ownership under the rights plan. The rights are non-voting and expire on November 22, 2008, unless exercised or previously redeemed by us for $.005 each. If we were involved in a merger or certain other business combinations not approved by the Board of Directors, each right entitles its holder, other than the acquiring person or group, to purchase common stock of either our company or the acquiror having a value of twice the exercise price of the right.

6. Income Taxes

In December 1998, we restructured ourselves to enable us to qualify for treatment as a REIT effective January 1, 1999, pursuant to the U.S. Internal Revenue Code of 1986, as amended. In general, a corporation that elects REIT status and meets certain tax law requirements regarding distribution of its taxable income to its stockholders as prescribed by applicable tax laws and complies with certain other requirements (relating primarily to the nature of its assets and the sources of its revenues) is not subject to Federal income taxation on its operating income to the extent it distributes at least 90% of its taxable income. In addition to paying Federal and state taxes on any retained income, we are subject to taxes on “built-in-gains” on sales of certain assets, if any. Additionally, our consolidated taxable REIT subsidiaries are subject to Federal, state and foreign income tax. The consolidated income tax provision or benefit includes, primarily, the tax provision related to the operations of the taxable REIT subsidiaries, Federal and state taxes on any undistributed taxable income, and international taxes at the operating partnership, as well as each of their respective subsidiaries.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies.

Total deferred tax assets and liabilities at December 31, 2004 and December 31, 2003 were as follows:

	2004	2003
	(in millions)	
Deferred tax assets	$125	$ 99
Less: Valuation allowance	(14)	(9)
Subtotal	111	90
Deferred tax liabilities	(80)	(78)
Net deferred income tax asset	$ 31	$ 12

The valuation allowance required under SFAS 109 primarily represents a net operating loss carryforward of a foreign affiliate (“NOL”) the benefit of which was not previously recorded, but which has been recorded under SFAS 109 as a deferred tax asset with an offsetting valuation allowance. Any subsequent reduction in the valuation allowance related to the NOL will be recorded as a reduction of income tax expense. The tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets and liabilities as of December 31, 2004 and December 31, 2003 were as follows:

	2004	2003
	(in millions)	
Investment in hotel leases	$ 29	$ 42
Deferred gains	1	5
Management fees	10	7
Interest expense	18	9
Other	7	2
Net operating loss carryforwards	44	23
Alternative minimum tax credit carryforwards	2	2
Safe harbor lease investments	(20)	(20)
Property and equipment	(4)	(3)
Investments in affiliates	(56)	(55)
Net deferred income tax asset (liability)	$ 31	$ 12

At December 31, 2004, we have net operating loss carryforwards of approximately $110 million, which expire through 2024.

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The (provision) benefit for income taxes for continuing operations consists of:

	2004	2003	2002
		(in millions)	
Current—Federal	$ 9	$23	$ (12)
—State	—	3	(5)
—Foreign	(6)	(5)	(6)
	3	21	(23)
Deferred—Federal	6	(9)	19
—State	1	(1)	2
—Foreign	—	2	—
	7	(8)	21
	$ 10	$13	$ (2)

The benefit (provision) for income taxes, including the amounts associated with discontinued operations, were $10 million, $9 million and $(6) million in 2004, 2003 and 2002, respectively.

A reconciliation of the statutory Federal tax (provision) benefit to our income tax (provision) benefit for continuing operations follows:

	2004	2003	2002
		(in millions)	
Statutory Federal tax benefit	$ 26	$ 83	$ 23
Nontaxable loss of REIT	(12)	(69)	(13)
Built-in-gain tax	—	—	1
State income taxes, net of Federal tax benefit	1	2	(3)
Tax contingencies	1	—	(4)
Tax on foreign source income	(6)	(3)	(6)
Income tax (provision) benefit	$ 10	$ 13	$ (2)

Cash paid for income taxes, net of refunds received, was $10 million, $21 million and $2 million in 2004, 2003 and 2002, respectively.

7. Leases

Hotel Leases. Prior to 2001, we leased our hotels (the “Leases”) to one or more third party lessees (the “Lessees”) due to Federal income tax law restrictions on a REIT’s ability to derive revenues directly from the operation of a hotel. Effective January 1, 2001, the REIT Modernization Act amended the tax laws to permit REITs to lease hotels to a subsidiary that qualifies as a taxable REIT subsidiary. During 2001, we acquired the lessee entities owning the leasehold interests with respect to our full-service hotels, and as a result, our revenues reflect hotel level sales instead of rental income.

Hospitality Properties Trust Relationship. In a series of related transactions in 1995 and 1996, we sold and leased back 53 Courtyard properties and 18 Residence Inns to Hospitality Properties Trust (“HPT”). These leases, which are accounted for as operating leases and are included in the table below, have initial terms expiring through 2012 for the Courtyard properties and 2010 for the Residence Inn properties, and are renewable at our option. Minimum rent payments are $55 million annually for the Courtyard properties and $18 million annually for the Residence Inn properties, and additional rent based upon sales levels are payable to HPT under the terms of the leases.

In 1998, we sublet the HPT hotels (the "Subleases") to separate sublessee subsidiaries of Crestline (the "Sublessee"), subject to the terms of the applicable HPT lease. The term of each Sublease expires simultaneously with the expiration of the initial term of the HPT lease to which it relates and automatically renews for the corresponding renewal term under the HPT lease, unless either we or the sublessee elect not to renew the Sublease provided, however, that neither party can elect to terminate fewer than all of the Subleases in a particular pool of HPT hotels (one for Courtyard hotels and one for Residence Inn hotels). Rent payable by Crestline under the Sublease consists of the minimum rent payable under the HPT lease and an additional percentage rent payable to us. The percentage rent payable by the Sublessee is generally sufficient to cover the additional rent due under the HPT lease, with any excess being retained by the Sublessor. The rent payable under the Subleases is guaranteed by Crestline, up to a maximum amount of $30 million, which is allocated between the two pools of HPT hotels.

Other Lease Information. As of December 31, 2004, 40 of all or a portion of our hotels are subject to ground leases, generally with multiple renewal options, all of which are accounted for as operating leases. Certain of these leases contain provisions for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. We also have leases on facilities used in our former restaurant business, some of which we subsequently subleased. These leases and subleases contain one or more renewal options, generally for five or 10-year periods. Our lease activities also include leases entered into by our hotels for various types of equipment, such as computer equipment, vehicles and telephone systems. The restaurant and equipment leases are accounted for as either operating or capital leases, depending on the characteristics of the particular lease arrangement. The amortization charge applicable to capitalized leases is included in depreciation expense in the accompanying consolidated statements of operations.

The following table presents the future minimum annual rental commitments required under non-cancelable leases for which we are the lessee as of December 31, 2004. Minimum payments for capital leases have not been reduced by aggregate minimum sublease rentals from restaurant subleases of $0.2 million, payable to us under non-cancelable subleases. Minimum payments for the operating leases have not been reduced by aggregate minimum sublease rentals from restaurants and HPT subleases of $27 million and $550 million, respectively, payable to us under non-cancelable subleases.

	Capital Leases	Operating Leases
	(in millions)	
2005	$ 4	$ 111
2006	4	108
2007	3	106
2008	—	119
2009	—	117
Thereafter	—	1,248
Total minimum lease payments	11	$ 1,809
Less amount representing interest	(2)	
Present value of minimum lease payments	$ 9	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We remain contingently liable on certain leases relating to divested non-lodging properties. Such contingent liabilities aggregated $33 million at December 31, 2004. However, management considers the likelihood of any material funding related to these leases to be remote.

Rent expense consists of:

	2004	2003	2002
		(in millions)	
Minimum rentals on operating leases	$123	$127	$120
Additional rentals based on sales	18	13	21
Less: sublease rentals	(83)	(79)	(81)
	$ 58	$ 61	$ 60

8. Employee Stock Plans

We maintain two stock-based compensation plans, including the comprehensive stock plan (the “Comprehensive Plan”), whereby we may award to participating employees (i) options to purchase our common stock, (ii) deferred shares of our common stock and (iii) restricted shares of our common stock, and the employee stock purchase plan. At December 31, 2004, there were approximately 2 million shares of common stock reserved and available for issuance under the Comprehensive Plan.

Prior to 2002, we accounted for expense under these plans according to the provisions of Accounting Principles Board Opinion No. 25 and related interpretations. Consequently, no compensation expense was recognized for stock options issued under the Comprehensive Plan or stock issued under the employee stock purchase plan. Effective January 1, 2002, we adopted the expense recognition provisions of SFAS 123 for employee stock options granted on or after January 1, 2002 only. Options granted in fiscal years prior to 2002 will continue to be accounted for using the intrinsic value method as described in APB 25 until the effective date of SFAS 123 (revised). As a result of the change in accounting method, we now record compensation expense for employee stock options based on the fair value of the options at the date of grant. We also record compensation expense for shares issued under our employee stock purchase plan. The implementation of SFAS 123 had no effect on the calculation of compensation expense for shares granted under deferred stock and restricted stock plans. For additional information on the effects of this change in accounting method, see Note 1.

Employee Stock Options. Employee stock options may be granted to officers and key employees with an exercise price not less than the fair market value of the common stock on the date of grant. Non-qualified options generally expire up to 15 years after the date of grant. Most options vest ratably over each of the first four years following the date of the grant.

In connection with the Host Marriott Services (“HM Services”) spin-off in 1995, outstanding options held by our current and former employees were redenominated in both our and HM Services stock and the exercise prices of the options were adjusted based on the relative trading prices of shares of the common stock of the two companies. Pursuant to the distribution agreement between us and HM Services, we originally had the right to receive up to 1.4 million shares of HM Services’ common stock or an equivalent cash value subsequent to

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

exercise of the options held by certain former and current employees of Marriott International. On August 27, 1999, Autogrill Acquisition Co., a wholly owned subsidiary of Autogrill SpA of Italy, acquired HM Services. Since HM Services is no longer publicly traded, all future payments to us will be made in cash, as HM Services has indicated that the receivable will not be settled in Autogrill SpA stock. As of December 31, 2004 and 2003, the receivable balance was approximately $4 million and $6 million, respectively, which is included in other assets in the accompanying consolidated balance sheets.

For purposes of the following disclosures required by SFAS 123, the fair value of each stock option granted has been estimated on the date of grant using an option-pricing model. There were no stock options granted in 2004 or 2003. Compensation expense for the stock options is recognized on a straight-line basis over the vesting period. The following weighted average assumptions were used for grants issued during 2002: risk-free interest rates of 3.8%, volatility of 36%, expected lives of 15 years; and dividend yield of 6.0%. The weighted average fair value per option granted during 2002 was $1.41. As a result of the implementation of SFAS 123, we recorded compensation expense of $280,000, $274,000 and $47,000, respectively, for 2004, 2003 and 2002, which represents the expense for stock options granted after January 1, 2002 only.

The following table is a summary of the status of our stock option plans that have been approved by our stockholders for the three years ended December 31, 2004. We do not have stock option plans that have not been approved by our stockholders.

	2004		2003		2002	
	Shares (in millions)	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price
Balance, at beginning of year	4.5	$ 6	5.4	$ 6	4.9	$ 6
Granted	—	—	—	—	.9	8
Exercised	(1.6)	7	(.6)	6	(.2)	4
Forfeited/expired	(.3)	8	(.3)	9	(.2)	9
Balance, at end of year	2.6	6	4.5	6	5.4	6
Options exercisable at year-end	2.0		3.2		3.3	

The following table summarizes information about stock options at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares (in millions)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price
$ 1 – 3	1.0	2	$ 2	1.0	2
4 – 6	.1	4	6	.1	6
7 – 9	1.1	12	8	.6	8
10 – 12	.4	11	11	.3	11
13 – 19	—	8	18	—	18
	2.6			2.0	

Deferred Stock. Deferred stock incentive plan shares granted to officers and key employees after 1990 generally vest over 10 years in annual installments commencing one year after the date of grant. Certain

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

employees may elect to defer payments until termination or retirement. We accrue compensation expense on a straight-line basis over the vesting period for the fair market value of the shares on the date of grant, less estimated forfeitures. No shares were granted under this plan in 2004. In 2003 and 2002, 45,000 and 23,000 shares, respectively, were granted under this plan. The compensation cost that has been charged against income for deferred stock was not material for all periods presented. The weighted average fair value per share granted during 2003 and 2002 was $8.00 and $9.95, respectively. The implementation of SFAS No. 123 had no impact on the calculation of compensation expense for the deferred stock incentive plan.

Restricted Stock. From time to time, we award restricted stock shares under the Comprehensive Plan to officers and key executives to be distributed over the next three years in annual installments based on continued employment and the attainment of certain performance criteria. We recognize compensation expense over the restriction period equal to the fair market value of the shares issued, which is adjusted for fluctuation in the fair market value of our common stock. The number of shares issued is adjusted for forfeitures, and where appropriate, the level of attainment of performance criteria. In 2004, 2003 and 2002, 11,000, 3,203,000 and 906,000 shares, respectively, of restricted stock plan shares were granted to certain key employees under these terms and conditions. No shares were forfeited in 2004 and approximately 1,006,000 and 34,000 shares, respectively, were forfeited in 2003 and 2002. We recorded compensation expense of approximately $23 million, $15 million and $5 million, respectively, in 2004, 2003 and 2002 related to these awards. The weighted average grant date fair value per share granted during each year was $12.50 in 2004, $8.82 in 2003 and $10.49 in 2002. Under these awards, 2.3 million shares were outstanding at December 31, 2004.

In 2003, we also started a restricted stock program for our upper-middle management with 40% of the shares automatically vesting on the grant date, and the remaining 60% vesting over two years, subject to continued employment. We recognize compensation expense over the restriction period equal to the fair market value of the shares issued, which is adjusted for fluctuation in the fair market value of our common stock. The number of shares granted is adjusted for the level of attainment of performance criteria. During 2004, approximately 89,000 shares were granted under these terms and conditions that had a weighted average grant date fair value of $12.53. Approximately 34,000 shares were issued and 8,000 shares were forfeited during 2004. We recorded approximately $1 million of compensation expense related to these shares. Under this award, 47,000 shares were outstanding at December 31, 2004.

Employee Stock Purchase Plan. Under the terms of the employee stock purchase plan, eligible employees may purchase common stock through payroll deductions at 90% of the lower of market value at the beginning or end of the plan year, which runs from February 1 through January 31. We record compensation expense for the employee stock purchase plan based on the fair value of the employees’ purchase rights, which is estimated using an option-pricing model with the following assumptions for 2004 and 2003, respectively: Risk-free interest rate of 2.9% and 1.3%, volatility of 34% and 36%, expected life of one year, and dividend yield of 0% for both years. For the 2004 and 2003 plan years, approximately 16,000 and 21,000 shares, respectively, were issued. The weighted average fair value of those purchase rights granted in 2004 and 2003 was $3.02 and $2.20, respectively. The compensation expense reflected in net income was not material for all periods presented.

Stock Appreciation Rights. In 1998, 568,408 stock appreciation rights (“SARs”) were issued under the Comprehensive Plan to certain directors as a replacement for previously issued options that were cancelled during the year. The conversion to SARs was completed in order to comply with ownership limits applicable to us upon conversion to a REIT. The SARs are fully vested and the grant prices range from $1.20 to $2.71 and have a weighted average price of $1.88. In 2004, 2003 and 2002, we recognized compensation expense for outstanding SARs as a result of fluctuations in the market price of our common stock of $.4 million, $1.6 million and $.8 million, respectively. As of December 31, 2004, approximately 67,000 SARs were outstanding.

9. Profit Sharing and Postemployment Benefit Plans

We contribute to defined contribution plans for the benefit of employees meeting certain eligibility requirements and electing participation in the plans. The discretionary amount to be matched by us is determined annually by the Board of Directors. We provide medical benefits to a limited number of retired employees meeting restrictive eligibility requirements. Amounts for these items were not material for the three years ended December 31, 2004.

10. Discontinued Operations

Assets Held For Sale. During December 2004, we entered into definitive, binding agreements to sell four hotels, which were subsequently sold in January 2005. During December 2003, we entered into a definitive, binding agreement to sell five hotels, which were all sold in the first quarter of 2004. We recorded impairment charges of approximately $.7 million and $1.6 million related to these hotels as of December 31, 2004 and 2003, respectively. We reclassified the assets and liabilities relating to these hotels as held for sale in our consolidated balance sheets as of December 31, 2004 and 2003, respectively, as detailed in the following table (in millions):.

	2004	2003
Property and equipment, net	$111	$72
Other assets	2	1
Total assets	$113	$73
Other liabilities	26	2
Total liabilities	$ 26	$ 2

Dispositions. We disposed of nine hotels in 2004, disposed of eight hotels and abandoned one hotel (New York Marriott World Trade Center hotel—see Note 1 for more detail) in 2003 and disposed of one hotel in 2002 that require their operations and the related gains (losses) to be reclassified to discontinued operations in the statements of operations for all years presented. The following table summarizes the revenues, income before taxes, and the gain on disposals, net of tax, of the hotels that have been sold or classified as held for sale for the three years ended December 31, 2004 (in millions).

	2004	2003	2002
Revenues (1)	$133	$442	$334
Income before taxes (1)	12	191	45
Gain on disposals, net of tax	52	65	12

(1) Revenues and income before taxes in 2003 include business interruption proceeds of $170 million related to the New York Marriott World Trade Center hotel settlement. See Note 1 for additional information.

11. Acquisitions

On September 22, 2004, we acquired the 270-suite Scottsdale Marriott at McDowell Mountains for a purchase price of approximately $58 million, including the assumption of approximately $34 million of mortgage debt on the hotel. On July 15, 2004, we acquired the 450-suite Fairmont Kea Lani Maui for approximately $355 million. On April 27, 2004, we purchased the 455-room Chicago Embassy Suites, Downtown-Lakefront for approximately $89 million. During November 2003, we acquired the 806-room Hyatt Regency Maui Resort and Spa for $321 million.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On December 30, 2004, we received approximately $47 million in payment of a note receivable from a minority partner in a consolidated subsidiary that owns two hotels. At the request of the minority partner, the partnership purchased preferred units of Vornado Realty Trust (the “Vornado Preferred Units), which we held as of December 31, 2004. As the Vornado Preferred Units are not publicly traded, we have recorded them in other assets at their cost basis in our consolidated balance sheet. On January 3, 2005, these securities were transferred to the minority partner, in redemption of his partnership interest, and we also paid approximately $14 million to a second partner for the remaining minority interests in the partnership. No gain or loss was recognized on this transaction.

During June 2003, we acquired the remaining general partner interest and preferred equity interest held by outside partners in the 772-room JW Marriott, Washington, D.C. for approximately $3 million. We also became the sole limited partner after the partnership foreclosed on a note receivable from the other limited partner. As a result, we consolidated the partnership, and recorded property and equipment of $131 million and $95 million in mortgage debt on June 20, 2003.

No pro forma statements of operations have been provided as the effect of the acquisitions is not significant.

12. Fair Value of Financial Instruments

The fair value of certain financial assets and liabilities and other financial instruments are shown below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Notes receivable	$ 7	$ 7	$ 54	$ 54
Financial liabilities				
Senior notes (excluding fair value of swaps)	2,380	2,517	3,143	3,318
Exchangeable Senior Debentures	491	578	—	—
Mortgage debt and other, net of capital leases (1)	2,130	2,197	2,294	2,225
Convertible Subordinated Debentures	492	563	—	—
Convertible Preferred Securities	—	—	475	484

(1) Mortgage debt and other, net of capital leases at December 31, 2004, excluding $20 million of mortgage debt, related to the Hartford Marriott Farmington, that was classified as held for sale at December 31, 2004. The hotel was sold on January 6, 2005.

Notes receivable and other financial assets are valued based on the expected future cash flows discounted at risk-adjusted rates. Valuations for secured debt are determined based on the expected future payments discounted at risk-adjusted rates. Senior notes and the Convertible Subordinated Debentures are valued based on quoted market prices. The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts.

13. Marriott International Distribution and Relationship with Marriott International

We have entered into various agreements with Marriott International, including the management of the majority of our hotels including franchised properties; financing for joint ventures including the acquisition in 1996 of two full-service properties (one of which was sold on January 30, 2004) in Mexico City, Mexico for which Marriott International provided $29 million of debt financing and $28 million in preferred equity and the 2000 acquisition of two partnerships owning 120 limited-service hotels for a combined $372 million plus interest and legal fees (see Note 3) and certain limited administrative services.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On July 25, 2002, we completed negotiations with Marriott International in connection with changes to the management and other agreements for substantially all of our Marriott and Ritz-Carlton managed hotels. The changes were effective as of December 29, 2001. The management contract changes include providing us with additional approval rights over hotel operating budgets, capital budgets, shared service programs, and changes to certain system wide programs; reducing the amount of working capital requirements, and expanding an existing agreement that allows us to fund furniture, fixtures and equipment expenditures from one account controlled by us, which collectively increased cash available to us for general corporate purposes at that time by $125 million; reducing incentive management fees payable on certain Marriott managed hotels; reducing the amount we pay related to frequent guest programs; gradually reducing the amounts payable with respect to various centrally administered programs; and providing additional territorial restrictions for certain hotels in eight markets.

In addition to these modifications, we expanded the pool of hotels subject to an existing agreement that allows us to sell assets unencumbered by a Marriott management agreement without the payment of termination fees. The remaining pool includes 36 assets, 73% (measured by EBITDA) of which may be sold over a period of time without the payment of a termination fee.

In connection with these negotiations, we have amended our distribution agreement and stockholder rights plan to terminate Marriott International's right to purchase up to 20% of each class of our outstanding voting shares upon certain changes of control and clarified existing provisions in the management agreements that limit our ability to sell a hotel or our entire company to a competitor of Marriott International.

In 2004, 2003 and 2002, we paid Marriott International $129 million, $136 million and $144 million, respectively, in hotel management fees and $2 million, $4 million and $5 million, respectively, in franchise fees. Included in the management fees paid are amounts paid to Ritz-Carlton, Courtyard and Residence Inn.

14. Hotel Management Agreements

Of our hotels, 78 are subject to management agreements under which Marriott International or one of their subsidiaries manages the hotels, generally for an initial term of 15 to 20 years with renewal terms at the option of Marriott International of up to an additional 16 to 30 years. The agreements generally provide for payment of base management fees that are generally three percent of sales and incentive management fees generally equal to 20% to 50% of operating profit (as defined in the agreements) over a priority return (as defined) to us, with total incentive management fees not to exceed 20% of cumulative operating profit, or 20% of current year operating profit. In the event of early termination of the agreements, Marriott International will receive additional fees based on the unexpired term and expected future base and incentive management fees. We have the option to terminate certain management agreements if specified performance or extension thresholds are not satisfied. A single agreement may be canceled under certain conditions, although such cancellation will not trigger the cancellation of any other agreement. Certain consolidated partnerships with a total of eight properties operate under a single agreement, cancellation of which would affect all the properties in these partnerships.

Pursuant to the terms of the agreements, Marriott International furnishes the hotels with certain chain services which are generally provided on a central or regional basis to all hotels in the Marriott International hotel system. Chain services include central training, advertising and promotion, a national reservation system, computerized payroll and accounting services, and such additional services as needed which may be more efficiently performed on a centralized basis. Costs and expenses incurred in providing such services are required to be allocated among all domestic hotels managed, owned or leased by Marriott International or its subsidiaries on a fair and equitable basis. In addition, our hotels also participate in the Marriott Rewards program. The cost of this program is charged to all hotels in the Marriott hotel system.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We are obligated to provide the manager with sufficient funds, generally 5% of revenue, to cover the cost of (a) certain non-routine repairs and maintenance to the hotels which are normally capitalized; and (b) replacements and renewals to the hotels' furniture, fixtures and equipment. Under certain circumstances, we will be required to establish escrow accounts for such purposes under terms outlined in the agreements. To the extent we are not required to fund such amounts into escrow accounts, we remain liable to make such fundings in the future.

We have franchise agreements with Marriott International for two hotels. Pursuant to these franchise agreements, we generally pay a franchise fee based on a percentage of room sales and food and beverage sales, as well as certain other fees for advertising and reservations. Franchise fees for room sales are approximately six percent of sales, while fees for food and beverage sales are approximately three percent of sales. The terms of the franchise agreements are from 15 to 30 years.

We hold management agreements with The Ritz-Carlton Hotel Company, LLC ("Ritz-Carlton"), a wholly-owned subsidiary of Marriott International, to manage ten of our hotels. These agreements have an initial term of 15 to 25 years with renewal terms at the option of Ritz-Carlton of up to an additional 10 to 40 years. Base management fees vary from two to five percent of sales and incentive management fees, if any, are generally equal to 20% of available cash flow or operating profit, as defined in the agreements.

We also hold management agreements with hotel management companies other than Marriott International and Ritz-Carlton for 18 of our hotels. These agreements generally provide for an initial term of 10 to 20 years with renewal terms at the option of either party or, in some cases, the hotel management company of up to an additional one to 15 years. The agreements generally provide for payment of base management fees equal to one to four percent of sales. Fourteen of the fifteen agreements also provide for incentive management fees generally equal to 10 to 25 percent of available cash flow, operating profit, or net operating income, as defined in the agreements.

15. Geographic and Business Segment Information

We consider each one of our full-service 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 non-full-service hotel activities (primarily our limited-service leased hotels and office buildings) are immaterial, and thus, we report one business segment: hotel ownership. Our foreign operations consist of four properties located in Canada and one property located in Mexico. There were no intercompany sales between us and the foreign properties. The following table presents revenues and long-lived assets for each of the geographical areas in which we operate (in millions):

	2004		2003		2002	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$ 3,529	$ 7,124	$ 3,172	$ 6,907	$ 3,226	$ 6,857
Canada	87	111	70	107	71	96
Mexico	24	39	46	71	48	78
Total	$ 3,640	$ 7,274	$ 3,288	$ 7,085	$ 3,345	$ 7,031

16. Guarantees

We have certain guarantees which consist of commitments we have made to third parties for leases or debt that are not on our books due to various dispositions, spin-offs and contractual arrangements, but that we have agreed to pay in the event of certain circumstances including default by an unrelated party. We consider the likelihood of any material payments under these guarantees to be remote. The guarantees are listed below:

- We remain contingently liable for rental payments on certain divested non-lodging properties. These primarily represent divested restaurants that were sold subject to our guarantee of the future rental payments. The aggregate amount of these future rental payments is approximately $33 million as of December 31, 2004.
- In 1997, we owned Leisure Park Venture Limited Partnership, which owns and operates a senior living facility. We spun-off the partnership as part of Crestline in the REIT conversion, but we remain obligated under a guarantee of interest and principal with regard to $14.7 million of municipal bonds issued by the New Jersey Economic Development Authority through their maturity in 2027. However, to the extent we are required to make any payments under the guarantee, we have been indemnified by Crestline, who, in turn, is indemnified by the current owner of the facility.
- In connection with the sale of three hotels in the fourth quarter of 2004 and January 2005, we remain contingently liable for the amounts due under the respective ground leases. The future minimum lease payments are approximately $20 million through the full term of the leases, including renewal options. We believe that any liability related to these ground leases is remote, and in each case, we have been indemnified by the purchaser of the hotel.

17. Mandatorily Redeemable Non-controlling Interests of All Entities

We consolidate five majority-owned partnerships, the Philadelphia Market Street HMC Limited Partnership, or Market Street; the Pacific Gateway, Ltd, or San Diego; the Lauderdale Beach Association or LBA; the Marriott Mexico City Partnership, or Mexico; and the East Side Hotel Associates, L.P., or East Side, have finite lives. The partnerships have lives ranging from 77 to 100 years and terminate between 2061 and 2097.

As of December 31, 2004, the minority interest holders in two of the partnerships have settlement alternatives in which they could be issued 257,476 and 1,444,000 OP units, respectively, based on their ownership percentages as stipulated in their partnership agreements. At December 31, 2004 and 2003, the OP units were valued at $29 million and $25 million, respectively. Three of these partnerships do not have any settlement alternatives. At December 31, 2004 and 2003, the fair values of the minority interests in these partnerships were approximately $127 million and $116 million, respectively. Subsequent to year-end, we acquired certain partnership interests in one of the partnerships for approximately $14 million. We also acquired, at fair value, the remaining partnership interests in a non-monetary exchange of assets. No gain or loss was recorded on the exchange.

18. Subsequent Events

In January 2005, we sold the four hotels classified as held for sale for total proceeds of approximately $128 million, resulting in a gain of approximately $14 million.

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19. Quarterly Financial Data (unaudited)

	2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per share amounts)				
Revenues	$ 777	$ 898	$ 784	$1,181	$3,640
Income (loss) from continuing operations	(36)	(6)	(47)	25	(64)
Income from discontinued operations	4	23	1	36	64
Net income (loss)	(31)	17	(47)	61	—
Net income (loss) available to common stockholders	(40)	7	(60)	52	(41)
Basic earnings (loss) per common share:					
Continuing operations	(.14)	(.05)	(.17)	.05	(.31)
Discontinued operations	.02	.07	—	.10	.19
Net income (loss)	(.12)	.02	(.17)	.15	(.12)
Diluted earnings (loss) per common share:					
Continuing operations	(.14)	(.05)	(.17)	.05	(.31)
Discontinued operations	.02	.07	—	.10	.19
Net income (loss)	(.12)	.02	(.17)	.15	(.12)

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per share amounts)				
Revenues	$ 742	$ 801	$ 703	$1,042	$3,288
Income (loss) from continuing operations	(39)	(23)	(68)	(108)	(238)
Income from discontinued operations	5	10	3	234	252
Cumulative effect of a change in accounting principle	—	—	(24)	24	—
Net income (loss)	(34)	(14)	(88)	150	14
Net income (loss) available to common stockholders	(43)	(23)	(97)	142	(21)
Basic earnings (loss) per common share:					
Continuing operations	(.18)	(.12)	(.27)	(.37)	(.97)
Discontinued operations	.02	.03	.01	.75	.90
Cumulative effect of a change in accounting principle	—	—	(.09)	.08	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)
Diluted earnings (loss) per common share:					
Continuing operations	(.18)	(.12)	(.27)	(.38)	(.97)
Discontinued operations	.02	.03	.01	.76	.90
Cumulative effect of a change in accounting principle	—	—	(.09)	.08	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)

The sum of the basic and diluted earnings (loss) per common share for the four quarters in all years presented differs from the annual earnings per common share due to the required method of computing the weighted average number of shares in the respective periods. Fourth quarter 2003 results were significantly affected by the insurance settlement of the New York Marriott World Trade Center hotel as discussed in Note 1. In addition, we recorded a cumulative effect of a change in accounting principle, SFAS 150-3, effectively reversing the adoption of SFAS 150 in the third quarter of 2003. There were no significant items in fourth quarter 2004.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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

Internal Control over Financial Reporting

See Item 8 for Management's Report on Internal Control over Financial Reporting.

Item 9B. ***Other Information***

None.

PART III

Certain information called for by Items 10-14 is incorporated by reference from our 2005 Annual Meeting of Stockholders Notice and Proxy Statement (to be filed pursuant to Regulation 14A not later than 120 days after the close of our fiscal year).

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this item with respect to directors is incorporated by reference to the section of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled "Proposal No. 1: Election of Directors." See Part I of this Annual Report for information regarding the executive officers.

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The information required by this item with respect to compliance with Section 16(a) of the Exchange Act is incorporated by reference to the section of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

The information required by this item with respect to HMC's Audit Committee and Audit Committee Financial Experts is incorporated by reference to the section of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled "The Board of Directors and Committees of the Board."

We have adopted a Code of Business Conduct and Ethics that applies to all employees. In compliance with the applicable rules of the SEC, special ethics obligations of our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other employees who perform financial or accounting functions are set forth in Section 8 of the Code of Business Conduct and Ethics, entitled *Special Ethics Obligations of Employees with Financial Reporting Obligations*. The Code is available at the Investor Information/Governance section of our website at www.hostmarriott.com. We intend to satisfy the disclosure requirements under the Securities and Exchange Act of 1934, as amended, regarding an amendment to or waiver from our Code of Business Conduct and Ethics by posting such information on our web site.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference to the sections of HMC's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders entitled: "Executive Officer Compensation," "Aggregated Stock Option/SAR Exercises and Year-end Value," "Compensation of Directors," "Employment Arrangements" and "Compensation Committee Interlocks and Insider Participation."

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The Information required by this item is incorporated by reference to the sections of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled: "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. ***Certain Relationships and Related Transactions***

The Information required by this item is incorporated by reference to the section of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled "Certain Relationships and Related Transactions."

Item 14. ***Principal Accounting Fees and Services***

The information required by this item is incorporated by reference to the section of HMC's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders entitled "Auditor Fees."

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(i) FINANCIAL STATEMENTS

All financial statements of the registrant are set forth under Item 8 of this Report on Form 10-K.

(ii) FINANCIAL STATEMENT SCHEDULES

The following financial information is filed herewith on the pages indicated.

Financial Schedules:

	Page
III. Real Estate and Accumulated Depreciation.	S-1 to S-5

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(b) EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and among Host Marriott Corporation, HMC Merger Corporation and Host Marriott L.P. (incorporated by reference to Exhibit 2.1 of Host Marriott Corporation Registration Statement No. 333-64793).
3.1	Articles of Amendment and Restatement of Articles of Incorporation of Host Marriott Corporation (incorporated by reference to Exhibit 3.3 to Host Marriott Corporation's Amendment No. 2 to its Registration Statement on Form S-4 (SEC File No. 333-64793) filed on November 10, 1998).
3.2	Articles of Amendment of the Articles of Incorporation of Host Marriott Corporation (incorporated by reference to Exhibit 3.2 to Host Marriott Corporation's Registration Statement on Form 8-A filed with the SEC on June 1, 2004).
3.3	Amended and Restated Bylaws of Host Marriott Corporation, effective November 9, 2004 (incorporated by reference to Exhibit 3.1 of Host Marriott Corporation's Current Report on Form 8-K, filed on November 15, 2004).
3.4	Articles Supplementary of Host Marriott Corporation Classifying and Designating a Series of Preferred Stock as Series A Junior Participating Preferred Stock and Fixing Distribution and Other Preferences and Rights of Such Series (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on December 11, 1998).
3.5	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class B Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on November 23, 1999).

Exhibit No.	Description
3.6	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class C Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Registration Statement on Form 8-A (Registration No. 001-14625) filed with the Commission on March 23, 2001).
3.7	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 10% Class D Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.7 of Host Marriott Corporation's report on Form 10-Q, filed August 4, 2003).
3.8	Articles Supplementary of Host Marriott Corporation Classifying and Designating Preferred Stock of the Registrant as 8 7/8% Class E Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.3 of Host Marriott Corporation's report on Form 8-A, filed June 1, 2004).
4.1	Form of Common Stock Certificate (incorporated herein by reference to Exhibit 4.7 to Host Marriott's Amendment No. 4 to its Registration Statement on Form S-4 (SEC File No. 333-55807) filed on October 2, 1998).
4.2	Indenture for the 6 3/4% Convertible Debentures, dated December 2, 1996, between Host Marriott Corporation and IBJ Schroeder Bank & Trust Company, as Indenture Trustee (incorporated by reference to Exhibit 4.3 of Host Marriott Corporation's Registration Statement No. 333-19923).
4.3	First Supplemental Indenture, dated December 29, 1998, to Indenture, dated December 2, 1996, by and among Host Marriott Corporation, HMC Merger Corporation, Host Marriott, L.P., and IBJ Schroeder Bank & Trust Company (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation Current Report on Form 8-K, dated December 30, 1998).
4.4	Amended and Restated Trust Agreement, dated December 29, 1998, among HMC Merger Corporation, as Depositor, IBJ Schroeder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., W. Edward Walter and Christopher G. Townsend, as Administrative Trustees (incorporated by reference to Exhibit 4.9 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
4.5	Guarantee Agreement, dated December 2, 1996, between Host Marriott Corporation and IBJ Schroeder Bank & Trust Company, as Guarantee Trustee (incorporated by reference to Exhibit 4.6 of Host Marriott Corporation Registration Statement No. 333-19923).
4.6	Amendment No. 1, dated December 29, 1998, to Guarantee Agreement between Host Marriott Corporation and IBJ Schroeder Band & Trust Company, as Guarantee Trustee, dated December 2, 1996 (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation's Current Report on Form 8-K, dated December 30, 1998).
4.7	Rights Agreement between Host Marriott Corporation and The Bank of New York as Rights Agent, dated as of November 23, 1998 (incorporated by reference to Exhibit 4.1 of Host Marriott Corporation's Registration Statement on Form 8-A, filed on December 11, 1998).
4.8	Amendment No. 1 to Rights Agreement between Host Marriott Corporation and The Bank of New York, as Rights Agent, dated as of December 18, 1998 (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation's Current Report on Form 8-K, filed on December 24, 1998).
4.9	Amendment No. 2 to Rights Agreement between Host Marriott Corporation and The Bank of New York, as Rights Agent, dated as of August 21, 2002 (incorporated by reference to Exhibit 4.3 to Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 6, 2002, filed on October 21, 2002).
4.10	Form of Rights Certificate (incorporated by reference to Exhibit 4.3 of Host Marriott Corporation's Registration Statement on Form 8-A (SEC File No. 333-55807) filed on December 11, 1998).

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Exhibit No.	Description
4.11	Amended and Restated Indenture dated as of August 5, 1998, by and among HMH Properties, Inc., as Issuer, and the Subsidiary Guarantors named therein, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated August 6, 1998).
4.12	First Supplemental Indenture to Amended and Restated Indenture dated as of August 5, 1998 among HMH Properties, Inc., the Guarantors and Subsidiary Guarantors named in the Amended and Restated Indenture, dated as of August 5, 1998, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated August 6, 1998).
4.13	Reserved.
4.14	Third Supplemental Indenture, dated as of December 14, 1998, by and among HMH Properties Inc., Host Marriott, L.P., the entities identified therein as New Subsidiary Guarantors and Marine Midland Bank, as Trustee, to the Amended and Restated Indenture, dated as of August 5, 1998, among the Company, the Guarantors named therein, Subsidiary Guarantors named therein and the Trustee (incorporated by reference to Exhibit 4.3 of Host Marriott, L.P.'s Registration Statement No. 333-55807).
4.15	Fourth Supplemental Indenture, dated as of February 25, 1999, among Host Marriott, L.P., the Subsidiary Guarantors signatory thereto and Marine Midland Bank as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Fourth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No. 333-79275).
4.16	Sixth Supplemental Indenture, dated as of October 6, 2000, among Host Marriott, L.P., the Subsidiary Guarantors signatory thereto and HSBC Bank USA (formerly Marine Midland Bank, as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Sixth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No. 333-51944).
4.17	Ninth Supplemental Indenture, dated as of December 14, 2001, among Host Marriott, L.P. the Subsidiary Guarantors signatory thereto and HSBC Bank USA (formerly Marine Midland Bank, as Trustee to the Amended and Restated Indenture, dated as of August 5, 1998, as amended and supplemented through the date of the Ninth Supplemental Indenture (incorporated by reference to Exhibit 4.2 of Host Marriott, L.P.'s Registration Statement No ..333-76550).
4.18	Amended and Restated Twelfth Supplemental Indenture, dated as of July 28, 2004, by and among Host Marriott, L.P., the Subsidiary Guarantors signatures thereto and The Bank of New York, as successor to HSBC Bank USA (formerly, Marine Midland Bank), as trustee to the Amended and Restated Indenture, dated August 5, 1998 (incorporated by reference to Exhibit 4.17 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 10, 2004, filed on October 19, 2004).
4.19	Thirteenth Supplemental Indenture, dated as of March 16, 2004, by and among Host Marriott, L.P., the Subsidiary Guarantors signatories thereto, and The Bank of New York, as successor to HSBC Bank USA (formerly, Marine Midland Bank), as trustee, to the Amended and Restated Indenture dated August 5, 1998 (incorporated by reference to Exhibit 4.17 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended March 26, 2004, filed on May 3, 2004).

Exhibit No.	Description
4.20	Fourteenth Supplemental Indenture, dated August 3, 2004, by and among Host Marriott, L.P., the Subsidiary Guarantors named therein and The Bank of New York as successor to HSBC Bank USA (formerly, Marine Midland Bank), as trustee, to the Amended and Restated Indenture dated August 5, 1998 (incorporated by reference to Exhibit 4.10 of Host Marriott, L.P.'s Registration Statement on Form S-4 (SEC File No. 333-121109) filed with the Commission on December 9, 2004).
4.21	Registration Rights Agreement, dated as of March 16, 2004, among Host Marriott Corporation, Host Marriott, L.P. and Goldman, Sachs & Co. as representatives of the several Initial Purchasers named therein related to the 3.25% Exchangeable debentures due 2024 (incorporated by reference to Exhibit 4.10 of Host Marriott Corporation's Registration Statement on Form S-3 (SEC File No. 333-117229) filed with the Commission on July 8, 2004).
4.22	Registration Rights Agreement, dated August 3, 2004, by and among Host Marriott, L.P., the Guarantors named therein and the purchasers named therein relating to the offer to exchange 7% Series L Senior Notes due 2012 for 7% Series M Senior Notes due 2012 (incorporated by reference to Exhibit 4.17 of Host Marriott, L.P.'s Registration Statement on Form S-4 (SEC File No. 333-121109) filed with the Commission on December 9, 2004).
4.23*	Loan Agreement, dated as of July 8, 1999, among BRE/Swiss L.L.C., HMC Cambridge LLC, HMC Reston LLC, HMC Burlingame Hotel LLC, and HMC Times Square Hotel LLC, as borrowers, and Bankers Trust Company, as lender.
4.24*	First Amendment to Loan Agreement, dated as of August 18, 1999, among BRE/Swiss L.L.C., HMC Cambridge LLC, HMC Reston LLC, HMC Burlingame Hotel LLC, and HMC Times Square Hotel LLC, as borrowers, and Bankers Trust Company and Morgan Stanley Mortgage Capital Inc, as lenders.
10.1	Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P. (incorporated by reference to Exhibit 3.1 of Host Marriott, L.P.'s Registration Statement on Form S-4/A No. 333-55807, filed October 8, 1998).
10.2	Eleventh Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of August 3, 1999, establishing an additional class of units entitled the Class A Preferred Units (incorporated by reference to Exhibit 3.2 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.3	Sixteenth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of November 29, 1999, establishing an additional class of units entitled the Class B Preferred Units (incorporated by reference to Exhibit 3.3 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.4	Twenty-fifth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of March 27, 2001, establishing an additional class of units entitled the Class C Preferred Units (incorporated by reference to Exhibit 3.4 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.5	Thirtieth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P (incorporated by reference to Exhibit 3.5 of Host Marriott, L.P.'s Report on Form 10-K for the year ended December 31, 2001).
10.6	Thirty-sixth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of June 19, 2003, establishing an additional class of units entitled the Class D Preferred Units (incorporated by reference to Exhibit 10.5 of Host Marriott Corporation's Annual Report on Form 10-K for 2003, filed March 2, 2004.

Exhibit No.	Description
10.7	Forty-Fourth Amendment to Second Amended and Restated Agreement of Limited Partnership of Host Marriott, L.P., dated as of June 2, 2004, establishing an additional class of units entitled the Class E Preferred Units (incorporated by reference to Exhibit 3.7 of Host Marriott, L.P.'s Registration Statement on Form S-4 (SEC File No. 333-121109) filed with the Commission on December 9, 2004).
10.8	Distribution Agreement dated as of September 15, 1993 between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference from Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.9	Amendment No. 1 to the Distribution Agreement dated December 29, 1995 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.10	Amendment No. 2 to the Distribution Agreement dated June 21, 1997 by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International, Inc. (incorporated by reference to Exhibit 10.8 of Host Marriott Corporation Registration Statement No. 333-64793).
10.11	Amendment No. 3 to the Distribution Agreement dated March 3, 1998 by and among Host Marriott Corporation, Host Marriott Services Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Exhibit 10.9 of Host Marriott Corporation Registration Statement No. 333-64793).
10.12	Amendment No. 4 to the Distribution Agreement by and among Host Marriott Corporation and Marriott International Inc. (incorporated by reference to Exhibit 10.10 of Host Marriott Corporation Registration Statement No. 333-64793).
10.13	Amendment No. 5 to the Distribution Agreement, dated December 18, 1998, by and among Host Marriott Corporation, Host Marriott Services Corporation and Marriott International Inc. (incorporated by reference to Exhibit 10.14 of Host Marriott Corporation's Form 10-K for the year ended December 31, 1998).
10.14	Amendment No. 6, dated as of January 10, 2001, to the Distribution Agreement dated as of September 15, 1993 between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Exhibit 10.14 of Host Marriott Corporation's Annual Report on Form 10-K for 2003, filed March 2, 2004).
10.15	Amendment No. 7, dated as of December 29, 2001, to the Distribution Agreement dated as of December 15, 1993 between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Exhibit 10.38 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 6, 2002).
10.16	Distribution Agreement dated December 22, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.17	Amendment to Distribution Agreement dated December 22, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Exhibit 10.16 of Host Marriott Corporation's Form Report on 10-K for the year ended December 31, 1998).
10.18	Tax Sharing Agreement dated as of October 5, 1993 by and between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.19	License Agreement dated as of December 29, 1998 by and among Host Marriott Corporation, Host Marriott, L.P., Marriott International, Inc. and Marriott Worldwide Corporation (incorporated by reference to Exhibit 10.18 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).

Exhibit No.	Description
10.20	Tax Administration Agreement dated as of October 8, 1993 by and between Host Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 25, 1993).
10.21	Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Exhibit 10.17 of Host Marriott Corporation Registration Statement No. 333-64793).
10.22	First Amendment to Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Exhibit 10.18 of Host Marriott Corporation Registration Statement No. 333-64793).
10.23	Employee Benefits and Other Employment Matters Allocation Agreement dated as of December 29, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.24	Tax Sharing Agreement dated as of December 29, 1995 by and between Host Marriott Corporation and Host Marriott Services Corporation (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated January 16, 1996).
10.25	Contribution Agreement dated as of April 16, 1998 among Host Marriott Corporation, Host Marriott, L.P. and the contributors named therein, together with Exhibit B (incorporated by reference to Exhibit 10.18 of Host Marriott Corporation Registration Statement No. 333-55807).
10.26	Amendment No. 1 to Contribution Agreement dated May 8, 1998 among Marriott Corporation, Host Marriott, L.P. and the contributors named therein (incorporated by reference to Exhibit 10.19 of Host Marriott Corporation Registration Statement No. 333-55807).
10.27	Amendment No. 2 to Contribution Agreement dated May 18, 1998 among Host Marriott Corporation, Host Marriott, L.P. and the contributors named therein (incorporated by reference to Exhibit 10.20 of Host Marriott Corporation Registration Statement No. 333-55807).
10.28	Employee Benefits and Other Employment Matters Allocation Agreement between Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Exhibit 10.25 of Host Marriott Corporation Registration Statement No. 333-64793).
10.29	Amendment to the Employee Benefits and Other Employment Matters Allocation Agreement effective as of December 29, 1998 by and between Host Marriott Corporation, Marriott International, Inc., Sodexho Marriott Services, Inc., Crestline Capital Corporation and Host Marriott, L.P. (incorporated by reference to Exhibit 10.34 of Host Marriott Corporation's Report on Form 10-K for the year ended December 31, 1998).
10.30	Amended and Restated Noncompetition Agreement among Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation, dated December 28, 1998 (incorporated by reference to Exhibit 10.19 of Host Marriott Corporation's Annual Report on Form 10-K dated December 31, 1998).
10.31	First Amendment, dated as of December 28, 1998, to the Restated Noncompetition Agreement dated March 3, 1998 by and among Host Marriott Corporation, Marriott International, Inc. and Crestline Capital Corporation (incorporated by reference to Exhibit 10.32 of Host Marriott Corporation's Annual Report on Form 10-K for 2003, filed March 2, 2004).
10.32	Amended and Restated Credit Agreement, dated as of September 10, 2004, among Host Marriott, L.P., Certain Canadian Subsidiaries of Host Marriott, L.P., Deutsche Bank Trust Company Americas, Bank of America, N.A., Citicorp North America, Inc., Société Générale, Calyon New York Branch, and Various Lenders (incorporated by reference to Host Marriott Corporation's Form 8-K filed on September 16, 2004).

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Exhibit No.	Description
10.33	Amended and Restated Pledge and Security Agreement, dated as of September 10, 2004, among Host Marriott, L.P., the other Pledgors named therein and Deutsche Bank Trust Company Americas, as Pledgee (incorporated by reference to Host Marriott Corporation's Form 8-K filed on September 16, 2004).
10.34	Amended and Restated Subsidiaries Guaranty, dated as of September 10, 2004, by the subsidiaries of Host Marriott, L.P. named as Guarantors therein (incorporated by reference to Host Marriott Corporation's Form 8-K filed on September 16, 2004).
10.35	Acquisition and Exchange Agreement dated November 13, 2000 by Host Marriott, L.P. and Crestline Capital Corporation (incorporated by reference to Exhibit 99.2 of Host Marriott, L.P.'s Form 8-K/A filed December 14, 2000).
10.36	Host Marriott, L.P. Executive Deferred Compensation Plan as amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.2 of Host Marriott Corporation's Report on Form 8-K filed January 6, 2005).
10.37	Model Trust Agreement with T. Rowe Price Trust Company relating to the Host Marriott, L.P. Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 of Host Marriott Corporation's Report on Form 8-K filed January 6, 2005).
10.38	Host Marriott Corporation and Host Marriott, L.P. 1997 Comprehensive Stock and Cash Incentive Plan, as amended and restated December 29, 1998, as amended January 2004 (incorporated by reference to Exhibit 10.7 of Host Marriott Corporation's Annual Report on Form 10-K in 2003, filed March 2, 2004).
10.39	Form of Restricted Stock Agreement for use under the 1997 Host Marriott Corporation and Host Marriott, L.P. Comprehensive Stock and Cash Incentive Plan (incorporated by reference to Exhibit 10.48 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 10, 2004, filed on October 19, 2004).
10.40	Host Marriott, L.P. Retirement and Savings Plan effective January 1, 2004, as amended and restated as of May 20, 2004 (incorporated by reference to Exhibit 10.47 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 10, 2004, filed on October 19, 2004).
10.41	Host Marriott Corporation's Non-Employee Director's Deferred Stock Compensation Plan as amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.1 of Host Marriott Corporation's Report on Form 8-K filed January 6, 2005).
10.42	Host Marriott Corporation's Severance Plan for Executives effective March 6, 2003, as amended as of May 20, 2004 (incorporated by reference to Exhibit 10.46 of Host Marriott Corporation's Report on Form 10-Q for the quarter ended September 10, 2004, filed October 19, 2004).
10.43	Form of Indemnification Agreement for officers and directors of Host Marriott Corporation (incorporated by reference to Exhibit 10.35 of Host Marriott Corporation's Current Report on Form 8-K, filed December 7, 2004)
10.44	Annual Incentive Bonus Award Program 2005 Criteria (incorporated by reference to Exhibit 10.44 of Host Marriott Corporation's Report on Form 8-K filed February 24, 2005).
12*	Computation of Ratios of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	List of Subsidiaries of Host Marriott Corporation.
23*	Consent of KPMG LLP.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit No.	Description
32*	Certification 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.†

* 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 Section 13 or 15(d) 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, in the City of Bethesda, State of Maryland, on March 1, 2005.

HOST MARRIOTT CORPORATION

By: /s/ W. EDWARD WALTER

W. Edward Walter
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ RICHARD E. MARRIOTT **Richard E. Marriott**	Chairman of the Board of Directors	March 1, 2005
/s/ CHRISTOPHER J. NASSETTA **Christopher J. Nassetta**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2005
/s/ W. EDWARD WALTER **W. Edward Walter**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2005
/s/ LARRY K. HARVEY **Larry K. Harvey**	Senior Vice President and Corporate Controller (Principal Accounting Officer)	March 1, 2005
/s/ ROBERT M. BAYLIS **Robert M. Baylis**	Director	March 1, 2005
/s/ TERENCE C. GOLDEN **Terence C. Golden**	Director	March 1, 2005
/s/ ANN MCLAUGHLIN KOROLOGOS **Ann McLaughlin Korologos**	Director	March 1, 2005
/s/ JUDITH A. MCHALE **Judith A. McHale**	Director	March 1, 2005
/s/ JOHN B. MORSE, JR. **John B. Morse, Jr.**	Director	March 1, 2005

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HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2004
(in millions)

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
Full-service hotels:											
Albany, New York	$ —	$ 6	$ 30	$ —	$ 6	$ 30	$ 36	$ (6)	—	1998	40
The Ritz-Carlton, Amelia Island, Florida	—	25	116	8	25	124	149	(19)	—	1998	40
Four Seasons, Atlanta, Georgia	36	5	48	13	6	60	66	(10)	—	1998	40
Grand Hyatt, Atlanta, Georgia	—	8	88	12	8	100	108	(16)	—	1998	40
Atlanta Marquis, Georgia	145	12	184	38	16	218	234	(34)	—	1998	40
Atlanta Midtown Suites, Georgia	—	—	26	2	—	28	28	(6)	—	1996	40
Westin Buckhead, Georgia	32	5	84	17	6	100	106	(16)	—	1998	40
Miami Biscayne Bay, Florida	—	—	31	(2)	—	29	29	(7)	—	1998	40
Boston Marriott Copley Place, Massachusetts	89	—	202	13	—	215	215	(16)	—	2002	40
Boston/Newton, Massachusetts	—	3	31	9	3	40	43	(24)	—	1997	40
Hyatt, Boston, Massachusetts	33	15	69	17	17	84	101	(13)	—	1998	40
Hyatt Regency, Burlingame, California	65	16	119	32	20	147	167	(23)	—	1998	40
Calgary, Canada	—	5	18	7	5	25	30	(7)	—	1996	40
Hyatt Regency, Cambridge, Massachusetts	46	18	84	9	19	92	111	(15)	—	1998	40
Chicago/Downtown Courtyard, Illinois	—	7	27	3	7	30	37	(9)	—	1992	40
Chicago Embassy Suites, Illinois	—	—	85	—	—	85	85	(1)	—	2004	
Chicago O’Hare, Illinois	—	4	26	30	4	56	60	(23)	—	1997	40
Chicago O’Hare Suites, Illinois	—	—	36	1	—	37	37	(6)	—	1998	40
Chicago/Deerfield Suites, Illinois	—	4	19	1	4	20	24	(7)	—	1990	40
Swissôtel, Chicago, Illinois	55	29	132	11	30	142	172	(23)	—	1998	40
Coronado Island Resort, California	—	—	53	4	—	57	57	(11)	—	1997	40
Costa Mesa Suites, California	—	3	19	1	3	20	23	(5)	—	1996	40
Dallas Quorum, Texas	—	—	27	5	—	32	32	(10)	—	1994	40
Dayton, Ohio	—	2	30	2	2	32	34	(5)	—	1998	40
The Ritz-Carlton, Dearborn, Michigan	—	8	51	3	8	54	62	(9)	—	1998	40
Denver Tech Center, Colorado	—	6	26	13	6	39	45	(10)	—	1994	40
Desert Springs Resort and Spa, California	91	14	143	65	13	209	222	(37)	—	1997	40
Fairview Park, Virginia	—	9	39	1	8	41	49	(7)	—	1998	40
Fort Lauderdale Marina, Florida	—	6	30	10	6	40	46	(13)	—	1994	40
Gaithersburg/Washingtonian Center, Maryland	—	7	22	1	7	23	30	(7)	—	1993	40
Hanover, New Jersey	—	4	30	9	5	38	43	(10)	—	1997	40

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2004
(in millions)

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
Harbor Beach Resort, Florida	91	—	62	48	—	110	110	(26)	—	1997	40
Houston Airport, Texas	—	—	10	29	—	39	39	(26)	—	1984	40
JW Marriott Hotel at Lenox, Georgia	—	—	21	11	—	32	32	(12)	—	1990	40
JW Marriott Houston, Texas	—	4	26	10	8	32	40	(10)	—	1994	40
JWDC, Washington, D.C.	88	26	99	4	26	103	129	(13)	—	2003	40
Fairmont Kea Lani, Hawaii	—	55	294	1	55	295	350	(3)	—	2003	40
Key Bridge, Virginia	—	—	38	10	—	48	48	(25)	—	1997	40
Manhattan Beach, California	—	8	29	5	—	42	42	(10)	—	1997	40
Marina Beach, California	—	—	13	17	—	30	30	(6)	—	1995	40
Maui Hyatt, Hawaii	—	92	212	2	92	214	306	(6)	—	2003	40
Memphis, Tennessee	—	—	16	28	—	44	44	(8)	—	1998	40
Mexico/Polanco, Mexico	8	11	35	2	10	38	48	(12)	—	1996	40
Marriott McDowell Mountains, Arizona	34	10	48	—	—	58	58	—	—	2004	40
Miami Airport, Florida	—	—	7	45	—	52	52	(32)	—	1972	40
Minneapolis City Center, Minnesota	—	—	27	15	—	42	42	(25)	—	1986	40
Minneapolis Southwest, Minnesota	—	5	23	1	5	24	29	(5)	—	1998	40
New Orleans, Louisiana	89	16	96	57	16	153	169	(34)	—	1996	40
New York Financial Center, New York	—	19	79	13	19	92	111	(21)	—	1997	40
New York Marquis, New York	233	—	552	93	—	645	645	(262)	—	1986	40
Newark Airport, New Jersey	—	—	30	24	—	54	54	(30)	—	1984	40
Newport Beach, California	—	11	13	51	11	64	75	(36)	—	1975	40
Orlando Marriott World Center, Florida	222	18	156	189	29	334	363	(62)	—	1997	40
Pentagon City Residence Inn, Virginia	—	6	29	3	6	32	38	(7)	—	1996	40
Philadelphia Airport, Pennsylvania	—	—	42	3	1	44	45	(10)	—	1995	40
Philadelphia Convention Center, Pennsylvania	101	3	143	54	11	189	200	(44)	—	1995	40
Four Seasons, Philadelphia, Pennsylvania	—	26	60	9	27	68	95	(12)	—	1998	40
Portland, Oregon	—	6	40	8	6	48	54	(13)	—	1994	40
Hyatt Regency, Reston, Virginia	43	11	78	12	12	89	101	(14)	—	1998	40
The Ritz-Carlton, Phoenix, Arizona	—	10	63	1	10	64	74	(12)	—	1998	40
The Ritz-Carlton, Tysons Corner, Virginia	—	—	89	7	—	96	96	(17)	—	1998	40
The Ritz-Carlton, San Francisco, California	—	31	123	6	31	129	160	(21)	—	1998	40
San Antonio Rivercenter, Texas	73	—	86	44	—	130	130	(27)	—	1996	40
San Antonio Riverwalk, Texas	—	—	45	4	—	49	49	(12)	—	1995	40

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2004
(in millions)

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
San Diego Hotel and Marina, California	185	—	203	98	—	301	301	(64)	—	1996	40
San Diego Mission Valley, California	—	4	22	3	4	25	29	(5)	—	1998	40
San Francisco Airport, California	—	11	48	16	12	63	75	(18)	—	1994	40
San Francisco Fisherman’s Wharf, California	—	6	20	8	6	28	34	(10)	—	1994	40
San Francisco Moscone Center, California	—	—	278	34	—	312	312	(101)	—	1989	40
San Ramon, California	20	—	22	10	—	32	32	(7)	—	1996	40
Santa Clara, California	37	—	39	32	—	71	71	(39)	—	1989	40
Seattle SeaTac Airport, Washington	—	4	49	(6)	4	43	47	(11)	—	1998	40
Tampa Waterside, Florida	—	—	—	98	11	87	98	(11)	2000	—	40
Swissôtel, The Drake, New York	64	28	130	41	34	165	199	(27)	—	1998	40
The Ritz-Carlton, Atlanta, Georgia	—	13	42	8	13	50	63	(13)	—	1996	40
The Ritz-Carlton, Buckhead, Georgia	57	14	80	23	16	101	117	(23)	—	1996	40
The Ritz-Carlton, Marina del Rey, California	—	—	52	8	—	60	60	(14)	—	1997	40
The Ritz-Carlton, Naples, Florida	86	19	127	59	21	184	205	(43)	—	1996	40
The Ritz-Carlton, Naples Golf Lodge, Florida	—	6	—	65	7	64	71	(5)	2002	—	40
Toronto Airport, Canada	7	5	24	3	5	27	32	(7)	—	1996	40
Toronto Eaton Center, Canada	13	—	27	3	—	30	30	(7)	—	1995	40
Toronto Delta Meadowvale, Canada	—	4	20	9	4	29	33	(9)	—	1996	40
Dulles Airport, Washington	—	—	3	26	—	29	29	(23)	—	1970	40
Washington Dulles Suites, Washington	—	3	24	1	3	25	28	(6)	—	1996	40
Washington Metro Center, Washington D.C.	—	20	24	6	20	30	50	(8)	—	1994	40
Westfields, Virginia	—	7	32	4	7	36	43	(10)	—	1994	40
Sub total full-service hotels:	2,043	733	5,875	1,690	776	7,522	8,298	(1,719)			
Sub total—other full-service properties less than 5% of total:	—	34	293	74	33	368	401	(138)		various	40
Total full-service properties:	2,043	767	6,168	1,764	809	7,890	8,699	(1,857)			
Other properties, each less than 5% of total	—	17	26	6	17	32	49	(13)		various	Various
Total properties	2,043	784	6,194	1,770	826	7,922	8,748	(1,870)			
Held for sale properties	20	16	93	19	18	110	128	(39)		various	—
TOTAL	$2,063	$800	$ 6,287	$ 1,789	$844	$ 8,032	$8,876	$ (1,909)			

(1) Each hotel is operated as a Marriott-brand hotel unless otherwise indicated by its name.

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2004
(in millions)

Notes:

(A) The change in total cost of properties for the fiscal years ended December 31, 2004, 2003 and 2002 is as follows:

Balance at December 31, 2001	$7,735
Additions:	
Acquisitions	284
Capital expenditures and transfers from construction-in-progress	158
Deductions:	
Dispositions and other	(42)
Balance at December 31, 2002	8,135
Additions:	
Acquisitions	448
Capital expenditures and transfers from construction-in-progress	94
Deductions:	
Dispositions and other	(195)
Assets held for sale	(88)
Balance at December 31, 2003	8,394
Additions:	
Acquisitions	525
Capital expenditures and transfers from construction-in-progress	137
Deductions:	
Dispositions and other	(181)
Assets held for sale	(127)
Balance at December 31, 2004	$8,748

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HOST MARRIOTT CORPORATION AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2004
(in millions)

(B) The change in accumulated depreciation and amortization of real estate assets for the fiscal years ended December 31, 2004, 2003 and 2002 is as follows:

Balance at December 31, 2001	$1,281
Depreciation and amortization	237
Dispositions and other	(17)
Balance at December 31, 2002	1,501
Depreciation and amortization	257
Dispositions and other	(41)
Depreciation on assets held for sale	(20)
Balance at December 31, 2003	1,697
Depreciation and amortization	256
Dispositions and other	(60)
Depreciation on assets held for sale	(23)
Balance at December 31, 2004	$1,870

(C) The aggregate cost of properties for Federal income tax purposes is approximately $7,382 million at December 31, 2004.

(D) The total cost of properties excludes construction-in-progress properties.

Exhibit 4.23

LOAN AGREEMENT

Dated as of July 8, 1999

Between

BRE/SWISS L.L.C.,
HMC CAMBRIDGE LLC,
HMC RESTON LLC,
HMC BURLINGAME HOTEL LLC,
and HMC TIMES SQUARE HOTEL LLC,

as Borrower

and

BANKERS TRUST COMPANY,

as Lender

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LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of July 8, 1999 (as amended, restated, replaced, supplemented or otherwise modified from time to time, this "**Agreement**"), between BANKERS TRUST COMPANY, a New York banking corporation, having an address at 130 Liberty Street, 25th Floor, New York, New York 10006 ("**Lender**") and BRE/SWISS L.L.C., a Delaware limited liability company, HMC CAMBRIDGE LLC, a Delaware limited liability company, HMC RESTON LLC, a Delaware limited liability company, HMC BURLINGAME HOTEL LLC, a Delaware limited liability company and HMC TIMES SQUARE HOTEL LLC, a Delaware limited liability company, each having an address c/o Host Marriott Corporation, 10400 Fernwood Road, Bethesda, Maryland 20817-1109 (each, an "**Individual Borrower**" and collectively, "**Borrower**").

All capitalized terms used herein shall have the respective meanings set forth in Article I hereof.

W I T N E S S E T H :

WHEREAS, Borrower desires to obtain the Loan from Lender; and

WHEREAS, Lender is willing to make the Loan to Borrower, subject to and in accordance with the conditions and terms of this Agreement and the other Loan Documents.

NOW, THEREFORE, in consideration of the covenants set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree, represent and warrant as follows:

I. DEFINITIONS; PRINCIPLES OF CONSTRUCTION

Section 1.1 Definitions.

For all purposes of this Agreement, except as otherwise expressly provided:

"**1998 Base Profit**" shall mean the Base Profit for 1998, as set forth on Schedule VII.

"**Accrued Interest**" shall have the meaning set forth in Section 2.3.2.

"**Adjusted Interest Rate**" shall mean: (a) with respect to Component A, a rate per annum equal to the greater of (i) the Component A Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (b) with respect to Component B-1, a rate per annum equal to the greater of (i) the Component B-1 Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (c) with respect to Component B-2, a rate per annum equal to the greater of (i) the Component B-2 Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (d) with respect to the Component C Loan, a rate per annum equal to the greater of (i) the Component C Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (e) with respect to Component D, a rate per annum equal to the greater of (i) the Component D Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (f) with respect to Component E, a rate per annum equal to the greater of (i) the Component E Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (g) with respect to Component F, a rate per annum equal to the greater of (i) the Component F Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%) and (h) with respect to Component G, a rate per annum equal to the greater of (i) the Component G Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%).

"**Affiliate**" shall mean, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by or is under common control with such Person or is a director or officer of such Person or of an Affiliate of such Person.

"**Allocated Loan Amount**" shall mean, for each Individual Property, the product of (a) the Allocated Percentage for such Individual Property and (b) the then outstanding principal balance of the Loan; provided, however, that any Net Proceeds applied by Lender to prepay the principal balance of the Loan shall be applied solely to reduce the Allocated Loan Amount of the Individual Property that is the subject of the related Casualty or Condemnation.

"**Allocated Percentage**" shall mean, for each Individual Property, the amount set forth in Schedule I for such Individual Property, provided that, if Net Proceeds from a Casualty or Condemnation are applied to reduce the Allocated Loan Amount of an Individual Property, the Allocated Percentage of each Individual Property shall be recalculated to equal the Allocated Loan Amount of such Individual Property (as adjusted to the date of such recalculation) divided by the then outstanding principal balance of the Loan.

"**ALTA**" shall mean American Land Title Association, or any successor thereto.

"**Alteration Consultant**" shall have the meaning set forth in Section 4.1.10.

"**Alteration Threshold**" shall mean (a) seven and one-half percent (7½%) of the initial Allocated Loan Amount with respect to each Individual Property other than the Marriott Marquis and five percent (5%) of the initial Allocated Loan Amount with respect to the Marriott Marquis and (b) Thirty-Three Million Two Hundred Fifty Thousand and No/100 Dollars ($33,250,000) in the aggregate for all of the Individual Properties at any one time.

"**Annual Budget**" shall mean the operating and capital budget for each Individual Property setting forth the applicable Manager's good faith estimate of Gross Revenue, Operating Expenses, and Capital Expenditures for the applicable Fiscal Year.

"**Applicable Interest Rate**" shall mean, as to each of the Components (i) prior to the Effective Maturity Date, the Initial Interest Rate and (ii) on and after the Effective Maturity Date, the Adjusted Interest Rate.

"**Approved Annual Budget**" shall have the meaning set forth in Section 4.1.6(d).

"**Assignment of Leases**" shall mean, with respect to each Individual Property, that certain first priority Assignment of Leases and Rents, dated as of the date hereof, from Borrower, as assignor, to Lender, as assignee, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"**Award**" shall mean any compensation paid by any Governmental Authority in connection with a Condemnation in respect of all or any part of an Individual Property.

"**Bankruptcy Code**" shall mean Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time, and any successor statute or statutes and all rules and regulations from time to time promulgated thereunder, and any comparable foreign laws relating to bankruptcy, insolvency or creditors' rights.

"**Base Profit**" shall mean the Net Cash Flow of all of the Individual Properties determined on a quarterly basis for the preceding twelve (12) month period.

"**Basic Carrying Costs**" shall mean, with respect to an Individual Property, the sum of the following costs associated with such Individual Property for the relevant Fiscal Year or payment period: (i) real property taxes with respect to such Individual Property, (ii) insurance premiums with respect to such Individual Property, and (iii) with respect to the Marriott Marquis, Ground Rent.

"**Borrower**" shall mean, collectively, BRE/Swiss L.L.C., a Delaware limited liability company, HMC Cambridge LLC, a Delaware limited liability company, HMC Reston LLC, a Delaware limited liability company, HMC Burlingame Hotel LLC, a Delaware limited liability company and HMC Times Square Hotel LLC, a Delaware limited liability company, together with their respective permitted successors and permitted assigns.

"**Business Day**" shall mean a day other than a Saturday, a Sunday or a legal holiday on which national banks in the State of New York, the state where the corporate trust office of the trustee holding the Loan in a Securitization is located, or the state where the servicing offices of the Servicer are located, are not open for general business.

"**Capital Expenditures**" for any period shall mean amounts expended for replacements and alterations to the Individual Properties and required to be capitalized according to GAAP.

"**Capital Expenditures Work**" shall mean any labor performed or materials installed in connection with any Capital Expenditure.

"**Cash Management Account**" shall have the meaning set forth in the Cash Management Agreement.

"**Cash Management Agreement**" shall mean that certain cash management agreement among Lender, Borrower and the Cash Management Bank relating to funds deposited in the Cash Management Account, as the same may be amended, modified or replaced from time to time.

"**Cash Management Bank**" shall mean Wells Fargo Bank, National Association, its permitted successors and assigns.

"**Casualty**" shall mean the occurrence of any casualty, damage or injury, by war, fire, earthquake, other act of God or otherwise, to any of the Individual Properties or any part thereof.

"**Casualty Consultant**" shall have the meaning set forth in Section 5.3.2(c).

"**Casualty Retainage**" shall have the meaning set forth in Section 5.3.2(d).

"**Closing Date**" shall mean July 9, 1999, which is the date of initial funding the Loan.

"**Code**" shall mean the Internal Revenue Code of 1986, as amended, and as it may be further amended from time to time, any successor statutes thereto, and applicable U.S. Department of Treasury regulations issued pursuant thereto in temporary or final form.

"Component **A**" shall mean that portion of the Loan in the amount of Two Hundred Fourteen Million One Hundred Seventeen Thousand One Hundred Five and No/100 Dollars ($214,117,105) made by Lender to Borrower pursuant to this Agreement.

"Component **A Rate**" shall mean a rate per annum equal to 7.05315%.

"Component **B-1**" shall mean that portion of the Loan in the amount of One Hundred Million and No/100 Dollars ($100,000,000) made by Lender to Borrower pursuant to this Agreement.

"Component **B-1 Rate**" shall mean a rate per annum equal to 7.34315%.

"Component **B-2**" shall mean that portion of the Loan in the amount of Eighty-Eight Million Three Hundred Sixty-Two Thousand Eight Hundred Ninety-Five and No/100 Dollars ($88,362,895) made by Lender to Borrower pursuant to this Agreement.

"Component **B-2 Rate**" shall mean a rate per annum equal to 7.34315%.

"Component **C**" shall mean that portion of the Loan in the amount of Forty-Two Million Nine Hundred Seventy-Five Thousand and No/100 Dollars ($42,975,000) made by Lender to Borrower pursuant to this Agreement.

"Component **C Rate**" shall mean a rate per annum equal to 7.43315%.

"Component **D**" shall mean that portion of the Loan in the amount of Ninety-Eight Million Nine Hundred Ninety Thousand and No/100 Dollars ($98,990,000) made by Lender to Borrower pursuant to this Agreement.

"Component **D Rate**" shall mean a rate per annum equal to 7.72315%.

“Component **E**” shall mean that portion of the Loan in the amount of Thirty-Five Million Eight Hundred Seventy-Five Thousand and No/100 Dollars ($35,875,000) made by Lender to Borrower pursuant to this Agreement.

“Component **E Rate**” shall mean a rate per annum equal to 7.79315%.

“Component **F**” shall mean that portion of the Loan in the amount of Forty-Six Million Eight Hundred Thousand and No/100 Dollars ($46,800,000) made by Lender to Borrower pursuant to this Agreement.

“Component **F Rate**” shall mean a rate per annum equal to 8.04315%.

“Component **G**” shall mean that portion of the Loan in the amount of Thirty-Seven Million Eight Hundred Eighty Thousand and No/100 Dollars ($37,880,000) made by Lender to Borrower pursuant to this Agreement.

“Component **G Rate**” shall mean a rate per annum equal to 8.82313%.

“Components” shall mean, collectively, Component A, Component B-1, Component B-2, Component C, Component D, Component E, Component F and Component G.

“**Condemnation**” shall mean a temporary or permanent taking by any Governmental Authority as the result or in lieu or in anticipation of the exercise of the right of condemnation or eminent domain, of all or any part of any Individual Property, or any interest therein or right accruing thereto, including any right of access thereto or any change of grade affecting any Individual Property or any part thereof.

“**Consumer Price Index**” shall mean the Consumer Price Index for All Urban Consumers published by the United States Department of Labor, applicable to the Index Area that includes the subject Individual Property (all items) (base year 1982-84 = 100), or any successor index thereof as such successor index may be appropriately adjusted to establish substantial equivalence with the Consumer Price Index. If the Consumer Price Index is converted to a different standard reference base or otherwise revised, then whenever the determination of a CPI Increase figure is called for herein, the Consumer Price Index shall be converted in accordance with the conversion factors published by the United States Department of Labor, Bureau of Labor Statistics, or, if said Bureau shall not publish the same, as the same may be published by Prentice-Hall, Inc. or any other nationally recognized publisher of similar statistical information selected by Lender (in its reasonable discretion). If the Consumer Price Index ceases to be published and there is no successor thereto, such other index as Lender shall reasonably select shall be substituted for the Consumer Price Index.

“**CPI Increase**” shall mean, when used to qualify a fixed dollar amount set forth herein at the date in question, such fixed dollar amount, as increased by the percentage by which the Consumer Price Index at the time of such measurement shall have increased over such Consumer Price Index for July, 1999.

"**Debt**" shall mean the outstanding principal amount of the Loan together with all interest accrued and unpaid thereon and all other sums (including the Yield Maintenance Premium) due to Lender in respect of the Loan under the Note, this Agreement, the Mortgages, the Environmental Indemnity or any other Loan Document.

"**Debt Service**" shall mean, with respect to any particular period of time, scheduled principal and interest payments under the Note.

"**Debt Service Coverage Ratio**" shall mean (a) with respect to all of the Individual Properties, the ratio of (i) Net Cash Flow for all of the Individual Properties for the immediately preceding twelve (12) calendar month period to (ii) the projected Debt Service due for the next twelve (12) calendar month period immediately following such calculation and (b) with respect to one or more Individual Properties, the ratio of Net Cash Flow for the subject Individual Property for the immediately preceding twelve (12) calendar month period to (ii) the Allocated Percentage of the projected Debt Service that would be due with respect to the subject Individual Property or Individual Properties for the twelve (12) month period immediately following such calculation. Except as otherwise provided herein, the term "Debt Service Coverage Ratio" shall refer to the calculation set forth in clause (a).

"**Debt Service Payment Date**" shall mean the first (1^{st}) Business Day of every calendar month occurring during the term of the Loan.

"**Debt Service Reserve Funds**" shall have the meaning set forth in Section 6.6.1.

"**Default**" shall mean the occurrence of any event hereunder or under any other Loan Document which, but for the giving of notice or passage of time, or both, would be an Event of Default.

"**Default Rate**" shall mean, with respect to each Component, a rate per annum equal to the lesser of (i) the maximum rate permitted by applicable law, or (ii) five percent (5%) above the Applicable Interest Rate. Whenever the Default Rate applies to any amount due under the Loan Documents other than the principal of the Loan, the term "Default Rate" shall mean a rate per annum equal to the lesser of (i) the maximum rate permitted by applicable law, or (ii) five percent (5%) above the Applicable Interest Rate for Component G.

"**Defeasance Collateral Account**" shall have the meaning set forth in Section 2.5.3.

"**Defeasance Date**" shall have the meaning set forth in Section 2.5.1(a)(i).

"**Defeased Note**" shall have the meaning set forth in Section 2.5.2(iv) hereof.

"**Deposit Account**" shall mean an account with the Deposit Bank in the name of the related Hotel Lessee, with Lender as secured party, into which Rents shall be deposited pursuant to the applicable Deposit Account Agreement.

"**Deposit Account Agreement**" shall mean, with respect to each Individual Property, that certain Deposit Account Agreement, among Lender, the respective Individual Borrower, the respective Manager, the respective Hotel Lessee and the respective Deposit Bank, relating to funds deposited in the related Deposit Account, Manager's Account and Tenant Deposit Account, as applicable, as the same may be amended, modified or replaced from time to time.

"**Deposit Bank**" shall mean Wells Fargo Bank, National Association and its permitted successors and assigns.

"**Determination Date**" shall have the meaning set forth in Section 6.7.1.

"**Disclosure Document**" shall have the meaning set forth in Section 9.2(a).

"**Disclosure Document Date**" shall have the meaning set forth in Section 9.1(c)(iv).

"**Drake Swissôtel**" shall mean the Individual Property known as the Drake Swissôtel located in New York, New York.

"**Effective Maturity Date**" shall mean August 1, 2009.

"**Eligible Account**" shall mean a separate and identifiable account from all other funds held by the holding institution that is either (i) an account or accounts maintained with a federal or state-chartered depository institution or trust company which complies with the definition of Eligible Institution or (ii) a segregated trust account or accounts maintained with a federal or state chartered depository institution or trust company acting in its fiduciary capacity which, in the case of a state chartered depository institution or trust company is subject to regulations substantially similar to 12 C.F.R. §9.10(b), having in either case a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by federal and state authority. An Eligible Account will not be evidenced by a certificate of deposit, passbook or other instrument.

"**Eligible Institution**" shall mean a depository institution or trust company insured by the Federal Deposit Insurance Corporation the short term unsecured debt obligations or commercial paper of which are rated at least A-1 by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), P-1 by Moody's Investors Service, Inc. ("**Moody's**"), D-1 by Duff & Phelps Credit Rating Co. ("**Duff**") and F-1+ by Fitch IBCA, Inc. ("**Fitch**") in the case of accounts in which funds are held for thirty (30) days or less or, in the case of accounts in which funds are held for more than thirty (30) days, the long term unsecured debt obligations of which are rated at least "AA" by Fitch, Duff and S&P and "Aa2" by Moody's or such other institution as may be approved in writing by Lender and each Rating Agency, as evidenced by a written confirmation that the designation of such institution as an Eligible Institution will not result in a downgrade, qualification or withdrawal of the ratings assigned to the Certificates by such Rating Agency. The parties hereto confirm that, as of the date hereof, Bankers Trust Company and/or Deutsche Bank, First Union National Bank and Wells Fargo Bank, National Association are Eligible Institutions.

"**Environmental Indemnity**" shall mean that certain Environmental Indemnification Agreement dated as of the date hereof executed by Borrower in connection with the Loan for the benefit of Lender.

"**Equipment**" shall have the meaning set forth in the granting clause of the Mortgages.

"**ERISA**" shall have the meaning set forth in Section 4.2.10.

"**Event of Default**" shall have the meaning set forth in Section 10.1(a).

"**Exchange Act**" shall have the meaning set forth in Section 9.2(a).

"**Exchange Act Filing**" shall have the meaning set forth in Section 9.1(c)(vi).

"**Extraordinary Expense**" shall have the meaning set forth in Section 4.1.6(d).

"**FF&E**" shall mean furniture, fixtures and Equipment and other personal property (other than goods held for consumption).

"**FF&E Expenses**" shall mean the costs incurred in connection with Capital Expenditures and the repair and replacement of furniture, fixtures and Equipment and other personal property (other than goods held for consumption).

"**FF&E Funds**" shall have the meaning set forth in Section 6.5.1.

"**Fiscal Year**" shall mean each twelve month period commencing on January 1 and ending on December 31 during each year of the term of the Loan.

"**Funds**" shall mean, collectively, the Debt Service Reserve Funds, the FF&E Funds, the Ground Rent Funds, the Insurance Premium Funds, the Marquis Option Funds, the Required Repair Funds and the Tax Funds.

"**GAAP**" shall mean generally accepted accounting principles as applied to real estate companies set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the accounting profession), or in such other statements by such entity as may be in general use by significant segments of the U.S. accounting profession.

"**General Repair Funds**" shall have the meaning set forth in Section 6.1.1.

"**Governmental Authority**" shall mean any court, board, agency, commission, office or authority of any nature whatsoever or any governmental unit (federal, state, county, district, municipal, city or otherwise) whether now or hereafter in existence.

"**Gross Revenue**" shall mean, without duplication, all revenue, derived from the operation of the Individual Properties from whatever source, including, but not limited to, Rents, but excluding sales, use and occupancy or other taxes on receipts required to be accounted for by Borrower to any Governmental Authority, non-recurring revenues as determined by Lender in excess of $50,000, refunds and uncollectible accounts, proceeds of casualty insurance and Awards (other than rental insurance or other loss of income insurance), income from the sale of furniture, fixtures and Equipment and any disbursements to Borrower of the Funds established by this Agreement.

"**Ground Lease**" shall mean that certain Agreement of Lease dated July 2, 1982, relating to the Marriott Marquis between Ground Lessor and Times Square Hotel Company, recorded on July 6, 1982 in Reel 629 at Page 1643 in the Office of the Register, City of New York, as amended by that certain Letter Agreement dated August 28, 1986 and recorded on December 18, 1986 in Reel 1159 at Page 1305 in the Office of the Register, City of New York, as further amended by that certain Letter Agreement dated as of September 30, 1986 and recorded on December 18, 1986 in Reel 1159 at Page 1309 in the Office of the Register, City of New York, as further amended by Second Amendment dated as of October 1, 1998 and as assigned to the Marquis Borrower pursuant to that certain Assignment of Lease of even date herewith.

"**Ground Lessor**" shall mean Times Square Hotel, Inc., a wholly owned subsidiary of New York State Urban Development Corporation.

"**Ground Rent**" shall mean any rent, additional rent or other charge payable by the tenant under the Ground Lease.

"**Ground Rent Funds**" shall have the meaning specified in Section 6.4.1.

"**Guarantor**" shall mean Host.

"**Guaranty**" shall mean that certain Guaranty of Recourse Obligations from Guarantor to Lender of even date herewith.

"**HMC**" shall mean Host Marriott Corporation, a Maryland corporation.

"**Host**" shall mean Host Marriott, L.P., a Delaware limited partnership.

"**Host Commitment**" shall have the meaning specified in Section 6.7.1.

"**Hotel Lease**" means, with respect to any Individual Property, the lease agreement in effect from time to time between an Individual Borrower and the applicable Hotel Lessee for the use and operation of each Individual Property and all amendments, modifications, renewals, substitutions or replacements of each such lease. The initial Hotel Leases in effect as of the date hereof are identified on Schedule III attached hereto.

"**Hotel Lease Rent**" shall mean all rents, revenues, issues, profits, income and proceeds due or to become due to Borrower under the Hotel Leases.

"**Hotel Lessee**" means, with respect to any Individual Property that is subject to a Hotel Lease, the lessee with respect thereto. The initial Hotel Lessees under the Hotel Leases in effect as of the date hereof are identified on Schedule III attached hereto.

"**Hyatt**" shall mean Hyatt Corporation, a Delaware corporation.

"**Hyatt Hotels**" shall mean, collectively, the following Individual Properties: (i) the Cambridge Hyatt Regency located in Cambridge, Massachusetts, (ii) the Reston Hyatt Regency located in Reston, Virginia, and (iii) the San Francisco Airport Hyatt Regency located in Burlingame, California.

"**Improvements**" shall have the meaning set forth in the granting clause of the Mortgages.

"**Indebtedness**" shall mean, for any Person, without duplication: (i) all indebtedness of such Person for borrowed money, for amounts drawn under a letter of credit, or for the deferred purchase price of property for which such Person or its assets is liable, (ii) all unfunded amounts under a loan agreement, letter of credit, or other credit facility for which such Person would be liable if such amounts were advanced thereunder, (iii) all amounts required to be paid by such Person as a guaranteed payment to partners or a preferred or special dividend, including any mandatory redemption of shares or interests, (iv) all indebtedness guaranteed by such Person, directly or indirectly, (v) all obligations under leases that constitute capital leases for which such Person is liable, (vi) all indebtedness of such Person for trade payables, and (vii) all obligations of such Person under interest rate swaps, caps, floors, collars and other interest hedge agreements, in each case whether such Person is liable contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person otherwise assures a creditor against loss.

"**Indemnified Liabilities**" shall have the meaning set forth in Section 11.13(b)(ii).

"**Independent Director**" shall have the meaning set forth in Section 3.1.24(cc).

"**Individual Borrower**" shall mean each of BRE/Swiss L.L.C., a Delaware limited liability company, HMC Cambridge LLC, a Delaware limited liability company, HMC Reston LLC, a Delaware limited liability company, HMC Burlingame Hotel LLC, a Delaware limited liability company, and HMC Times Square Hotel LLC, a Delaware limited liability company.

"**Individual Properties**" shall mean, collectively, all of the Individual Properties which are subject to the terms of this Agreement from time to time.

"**Individual Property**" shall mean each parcel of real property, the improvements thereon and all personal property owned by an Individual Borrower and encumbered by a Mortgage, together with all rights pertaining to such property and improvements, as more particularly described in the Granting Clauses of such Mortgages.

“**Initial Interest Rate**” shall mean (a) with respect to Component A, the Component A Rate, (b) with respect to Component B-1, the Component B-1 Rate, (c) with respect to Component B-2, the Component B-2 Rate, (d) with respect to Component C, the Component C Rate, (e) with respect to Component D, the Component D Rate, (f) with respect to Component E, the Component E Rate, (g) with respect to Component F, the Component F Rate and (h) with respect to Component G, the Component G Rate.

“**Insolvency Opinion**” shall mean those certain bankruptcy nonconsolidation opinion letters dated the date hereof delivered by Hogan & Hartson L.L.P. in connection with the Loan.

“**Insurance Premium Funds**” shall have the meaning set forth in Section 6.3.1.

“**Insurance Premiums**” shall have the meaning set forth in Section 5.1.1(b).

“**Lease**” shall mean any lease, sublease or subsublease, letting, license, concession, or other agreement (whether written or oral and whether now or hereafter in effect) other than a Hotel Lease pursuant to which any Person is granted a possessory interest in, or right to use or occupy all or any portion of any space in any Individual Property and every modification, amendment or other agreement relating to such lease, sublease, subsublease or other agreement entered into in connection with such lease, sublease, subsublease or other agreement and every guarantee of the performance and observance of the covenants, conditions and agreements to be performed and observed by the other party thereto.

“**Legal Requirements**” shall mean, with respect to Borrower and each Individual Property, all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions of Governmental Authorities affecting Borrower or such Individual Property or any part thereof or the construction, use, alteration or operation thereof, or any part thereof, whether now or hereafter enacted and in force, including, without limitation, the Americans with Disabilities Act of 1990, and all permits, licenses and authorizations and regulations relating thereto, and all covenants, agreements, restrictions and encumbrances contained in any instruments, either of record or known to Borrower, at any time in force affecting such Individual Property or any part thereof, including, without limitation, any which may (i) require repairs, modifications or alterations in or to such Individual Property or any part thereof, or (ii) in any way limit the use and enjoyment thereof.

“**Lender**” shall mean Bankers Trust Company, a New York banking corporation, together with its successors and assigns.

“**Letter of Credit**” shall mean an irrevocable, unconditional, transferable, clean sight draft letter of credit (either an evergreen letter of credit with a minimum initial term of one (1) year and minimum renewal term(s) of one (1) year each or one which does not expire until at least thirty (30) Business Days after the Effective Maturity Date) in favor of Lender and entitling Lender to draw thereon in New York, New York, issued by a domestic

Eligible Institution or the U.S. agency or branch of a foreign Eligible Institution. If at any time the bank issuing any such Letter of Credit shall cease to be an Eligible Institution, Lender shall have the right immediately to draw down the same in full and hold the proceeds of such draw in accordance with the applicable provisions hereof. Each Letter of Credit must be acceptable to Lender and the Rating Agencies, as evidenced by written confirmation from the Rating Agencies that the delivery of such Letter of Credit will not result in the qualification, downgrade or withdrawal of the then current ratings assigned to the Securities.

"**Liabilities**" shall have the meaning set forth in Section 9.2(b).

"**Lien**" shall mean, with respect to each Individual Property, any mortgage, deed of trust, lien, pledge, hypothecation, assignment, security interest, or any other encumbrance, charge or transfer of, on or affecting such Individual Property or any portion thereof or Borrower, or any interest therein, including, without limitation, any conditional sale or other title retention agreement, any sale-leaseback, any financing lease having substantially the same economic effect as any of the foregoing, the filing of any financing statement, and mechanic's, materialmen's and other similar liens and encumbrances.

"**Loan**" shall mean the loan made by Lender to Borrower pursuant to this Agreement, which loan is comprised of the Components.

"**Loan Documents**" shall mean, collectively, this Agreement, the Note, the Mortgages, the Assignments of Leases, the Cash Management Agreement, the Deposit Account Agreements, the Environmental Indemnity, the Guaranty and any other document pertaining to the Individual Properties as well as all other documents now or hereafter executed and/or delivered in connection with the Loan.

"**Major Lease**" shall mean any Lease (i) which generates Rent in excess of $1,000,000 per year or (ii) made with a Tenant that is a Tenant under another Lease at such Individual Property or that is an Affiliate of any other Tenant under a Lease at such Individual Property, if the Leases together generate Rent in excess of $1,000,000 per year.

"**Management Agreement**" shall mean, with respect to any Individual Property, the written management agreement, entered into from time to time by and between an Individual Borrower or a Hotel Lessee or both, as applicable, and the applicable Manager pursuant to which such Manager is to provide management and other services with respect to said Individual Property, as amended, modified or replaced from time to time. The initial Management Agreements in effect as of the date hereof are identified on Schedule IV attached hereto.

"**Manager**" means any manager of any Individual Property approved in accordance with the terms and provisions of the Loan Documents. The initial Managers under the Management Agreements in effect as of the date hereof are identified on Schedule IV attached hereto.

"**Marquis Borrower**" shall mean HMC Times Square Hotel LLC, a Delaware limited liability company.

"**Marquis Lease**" shall mean that certain Lease dated as of April 1, 1995 between Times Square Marquis, L.P. and Spectacolor Communications, Inc., as amended, with respect to certain billboard space at the Marriott Marquis.

"**Marquis Option Funds**" shall have the meaning specified in Section 6.7.1.

"**Marriott Marquis**" shall mean the Individual Property commonly known as the Marriott Marquis located in New York, New York.

"**Material Agreements**" means each contract and agreement relating to the ownership, management, development, use, operation, leasing, maintenance, repair or improvement of any Individual Property, other than the Management Agreements, the Hotel Leases and the Leases, under which there is an obligation of an Individual Borrower to pay more than $1,000,000 per annum or which cannot be terminated without cause upon thirty (30) days' notice or less.

"**Material Alteration**" shall mean any individual major repair, alteration, improvement, renewal or replacement to mechanical, electrical, heating, ventilating, air conditioning, plumbing, vertical transportation or life safety building systems or to the exterior façade or structure of any Individual Property involving construction, the cost of which exceeds (a) Five Hundred Thousand and No/100 Dollars ($500,000) with respect to each Individual Property other than the Marriott Marquis or (b) One Million and No/100 Dollars ($1,000,000) with respect to the Marriott Marquis. Material Alteration shall not include replacements and renewals to FF&E or routine repairs and maintenance, including, by way of example and not limitation, exterior and interior painting or changes of a decorative nature.

"**Maturity Date**" shall mean August 1, 2019, or such other date on which the final payment of principal of the Note becomes due and payable as therein or herein provided, whether at such stated maturity date, by declaration of acceleration, or otherwise.

"**Maximum Legal Rate**" shall mean the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the indebtedness evidenced by the Note and as provided for herein or the other Loan Documents, under the laws of such state or states whose laws are held by any court of competent jurisdiction to govern the interest rate provisions of the Loan.

"**MII**" shall mean Marriott International, Inc., a Delaware corporation.

"**Minimum Manager Rating**" shall mean a long-term unsecured debt rating for a Manager or a Person of which such Manager is a wholly-owned subsidiary of at least BBB+ from S&P and Baa3 from Moody's.

"**Monthly Debt Service Payment Amount**" shall mean a monthly payment in an amount equal to the sum of the following: (i) the amounts for the applicable month as set forth on Column A of Schedule VIII hereto and (ii) the amounts for the applicable month as set forth on Column B of Schedule VIII hereto, which amounts on Column B represent a calculation of interest which would be due on the outstanding principal balance of each Component calculated at the Applicable Interest Rate for such Component, provided, however, in the event Lender shall have modified the Components in accordance with the provisions of Section 2.1.5 hereof, Column B of Schedule VIII hereto shall be modified by Lender to reflect the calculation of such interest, as so modified. In such event, Lender shall deliver to Borrower a revised Schedule VIII, which shall supercede Schedule VIII from and after the date of such modification. The Monthly Debt Service Payment Amount shall not otherwise vary once established.

"**Morgan Stanley**" shall have the meaning set forth in Section 9.2(b).

"**Morgan Stanley Group**" shall have the meaning set forth in Section 9.2(b).

"**Mortgage**" shall mean, with respect to each Individual Property, a first priority Mortgage (or Deed of Trust or Deed to Secure Debt, as applicable), and Security Agreement, dated the date hereof, executed and delivered by the applicable Borrower that owns such Individual Property as security for the Loan made to Borrower and encumbering such Individual Property, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"**Net Cash Flow**" for any period shall mean the amount obtained by subtracting Operating Expenses for such period from Gross Revenue for such period. A schedule of the 1998 Net Cash Flow is attached hereto as Schedule VII.

"**Net Proceeds**" shall mean: (i) the net amount of all insurance proceeds payable as a result of a Casualty to an Individual Property, after deduction of reasonable costs and expenses (including, but not limited to, reasonable attorneys' fees), if any, in collecting such insurance proceeds, or (ii) the net amount of any Award, after deduction of reasonable costs and expenses (including, but not limited to, reasonable attorneys' fees), if any, in collecting such Award.

"**Net Proceeds Deficiency**" shall have the meaning set forth in Section 5.3.2(f).

"**Note**" shall have the meaning set forth in Section 2.1.3.

"**Notice**" shall have the meaning set forth in Section 11.6.

"**Officer's Certificate**" shall mean a certificate delivered to Lender by Borrower which is signed by an authorized senior officer of Borrower.

"**Operating Expenses**" shall mean all costs and expenses relating to the ownership, operation, maintenance and management of each Individual Property, including, without limitation, (i) the cost of all services and utilities with respect to such Individual Property, including all electricity, oil, gas, water, steam, heating, ventilation, air conditioning, elevator, escalator, landscaping, answering services, telephone maintenance, credit check, snow removal, trash removal and pest extermination costs and expenses and any other energy, utility or similar item and overtime services with respect to such Individual Property, (ii) cleaning, repairs, decoration and maintenance, (iii) insurance, (iv) property taxes and assessments, (v) advertising, marketing and promotional expenses, (vi) wages, benefits, payroll and related taxes, uniforms and other related expenses for employees (vii) operating costs and expenses of security and security systems, reservation systems, internal telephone exchanges, key card systems, food and beverage expenses, parking and valet services, parking lot maintenance and ordinary parking lot repairs in respect of such Individual Property, (viii) equipment lease payments and vehicle charges, (ix) management fees (excluding incentive management fees), (x) franchise fees, (xi) deposits of FF&E Funds, (xii) legal and accounting expenses, (xiii) Ground Rent due for such period in an amount equal to the greater of 5% of Gross Revenues for the Marriott Marquis or the actual Ground Rent and (xiv) all other items specified as Operating Expenses (or a term of similar meaning and use) in the Management Agreements, but excluding income taxes, depreciation and amortization.

"**Original Appraised Value**" shall mean, with respect to each Individual Property, the amount set forth on Schedule I attached hereto.

"**Other Charges**" shall mean all ground rents, maintenance charges, impositions other than Taxes, and any other charges, including, without limitation, vault charges and license fees for the use of vaults, chutes and similar areas adjoining the Individual Properties, now or hereafter levied or assessed or imposed against the Individual Properties or any part thereof.

"**Partial Defeasance**" shall have the meaning set forth in Section 2.5.2(a).

"**Partial Defeasance Date**" shall have the meaning set forth in Section 2.5.2(a)(i).

"**Partial Defeasance Collateral**" shall mean U.S. Obligations which provide payments (i) on or prior to, but as close as possible to, all Debt Service Payment Dates and other scheduled payment dates, if any, under the Defeased Note after the Defeasance Date and up to and including the Effective Maturity Date, and (ii) in amounts equal to or greater than the Scheduled Defeasance Payments.

"**Permitted Encumbrances**" shall mean, with respect to an Individual Property, collectively, (i) the Liens and security interests created by the Loan Documents, (ii) all Liens, encumbrances and other matters disclosed in the Title Insurance Policies relating to such Individual Property or any part thereof, (iii) Liens, if any, for Taxes imposed by any Governmental Authority not yet due or delinquent or that are being contested in accordance with Section 4.1.2 hereof, (iv) the Liens and security interests granted in connection with the Permitted Indebtedness, (v) Liens in respect of property or assets which were incurred in the ordinary course of business, such as carriers', warehousemen's, landlord's, mechanic's, materialmen's repairmen's and other similar Liens which are paid, bonded or otherwise discharged within thirty (30) days after Borrower receives notice thereof, (vi) easements, rights-of-way, restrictions, minor defects or irregularities in title and other similar charges or encumbrances (including any of such matters incurred or entered into by Borrower in the ordinary course of business) which in each case do not diminish in any material respect the value, use or operation of any Individual Property or affect in any respect the validity, enforceability or priority of the Liens created by the Loan Documents or Borrower's ability to repay the Loan, and (vii) such other title and survey exceptions as Lender has approved or may approve in writing in Lender's sole discretion, which in the aggregate do not materially adversely affect the value, use or operation of such Individual Property or Borrower's ability to repay the Loan.

"**Permitted Indebtedness**" shall have the meaning set forth in Section 3.1.24(w).

"**Permitted Investments**" shall have the meaning set forth in the Cash Management Agreement.

"**Permitted Replacement Lease**" shall mean a Hotel Lease that (i) does not have an adverse economic affect on the subject Individual Property, (ii) does not have an adverse affect on Lender or the holders of the Securities, (iii) provides that the Hotel Lessee shall be a single-purpose bankruptcy-remote entity with customary limitations on its ability in incur Indebtedness, (iv) provides for the same timing of payments as the prior Hotel Lease for the subject Individual Property, (v) has no changes in the definitions of "default", "event of default" or words of similar meaning from those set forth in the prior Hotel Lease for the subject Individual Property, (vi) retains the same cash management procedures set forth in the prior Hotel Lease and the Loan Documents for the subject Individual Property, (vii) imposes obligations on the Hotel Lessee that are substantially similar to those set forth in the prior Hotel Lease for the subject Individual Property, (viii) is subordinate in all respects to the related Mortgage, (ix) does not change the definition of "Gross Revenues", "Minimum Rent", "Percentage Rent" or "Additional Charges", (x) does not decrease the cash flow of the subject Individual Property and (xi) does not adversely affect the marketability of the subject Individual Property.

"**Permitted Transferee**" shall mean a corporation, partnership or limited liability company (i) that qualifies as a single purpose, bankruptcy remote entity under criteria established by applicable Rating Agencies and (ii) whose counsel has delivered to Lender a non-consolidation opinion acceptable to Lender in its sole discretion.

"**Person**" shall mean any individual, corporation, partnership, limited liability company, joint venture, estate, trust, unincorporated association, any other entity, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

"**Physical Conditions Report**" shall mean with respect to any Individual Property a report prepared by a company satisfactory to Lender regarding the physical condition of such Individual Property, satisfactory in form and substance to Lender in its sole discretion.

"**Policies**" shall have the meaning specified in Section 5.1.1(b).

"**Prepayment Date**" shall mean the date on which the Loan is prepaid in accordance with the terms hereof.

"**Public Offering**" shall have the meaning specified in Section 4.1.6(b)(i).

"**Purchase Option**" shall mean the option granted to the lessee under the Ground Lease to purchase the fee interest in the Marriott Marquis.

"**Qualified Manager**" shall mean a nationally-recognized manager of not less than 10 first-class full service hotels consisting of not less than 2,500 rooms.

“**Rating Agencies**” shall mean, prior to the final Securitization of the Loan, each of S&P, Moody’s, Duff and Fitch, or any other nationally-recognized statistical rating agency which has been approved by Lender and, after a Securitization, shall mean any of the foregoing that have rated the Securities.

“**Rating Surveillance Charge**” shall have the meaning set forth in Section 9.3.

“**Registration Statement**” shall have the meaning set forth in Section 9.2(b).

“**Release Date**” shall mean the earlier to occur of (a) the fourth anniversary of the Closing Date and (b) the date that is two (2) years from the “startup day” (within the meaning of Section 860G(a)(9) of the Code) of the REMIC Trust established in connection with the final Securitization involving this Loan.

“**Release Property**” shall have the meaning set forth in Section 2.5.2(a)(i).

“**REMIC Trust**” shall mean a “real estate mortgage investment conduit” within the meaning of Section 860D of the Code that holds the Note.

“**Rent Payment Date**” shall mean, with respect to each Hotel Lease, the date that payments of rent thereunder are due.

“**Rents**” shall mean, with respect to each Individual Property, all rents (other than Hotel Lease Rent), moneys payable as damages or in lieu of rent, revenues, deposits (including, without limitation, security, utility and other deposits), accounts, cash, issues, profits, charges for services rendered, and other consideration of whatever form or nature received by or paid to or for the account of or benefit of Borrower, Manager, Hotel Lessee or their respective agents or employees from any and all sources arising from or attributable to the Individual Property, including, without limitation, all hotel receipts, revenues and credit card receipts collected from guest rooms, restaurants, bars, meeting rooms, banquet rooms and recreational facilities, all receivables, customer obligations, installment payment obligations and other obligations now existing or hereafter arising or created out of the sale, lease, sublease, license, concession or other grant of the right of the use and occupancy of property or rendering of services by Borrower, any Hotel Lessee or any operator or manager of the hotel or the commercial space located in the Improvements or acquired from others (including, without limitation, from the rental of any office space, retail space, guest rooms or other space, halls, stores, and offices, and deposits securing reservations of such space), license, lease, sublease and concession fees and rentals, health club membership fees, food and beverage wholesale and retail sales, service charges, vending machine sales and proceeds, if any, from business interruption or other loss of income insurance.

“**Required Repair Funds**” shall have the meaning set forth in Section 6.1.1.

“**Required Repairs**” shall have the meaning set forth in Section 6.1.1.

“**Restoration**” shall have the meaning set forth in Section 5.2.1.

"**Restoration Threshold**" shall mean, with respect to each Individual Property, an amount equal to five percent (5%) of the initial Allocated Loan Amount.

"**Scheduled Defeasance Payments**" shall mean scheduled payments of interest and principal under the Note in the case of a Total Defeasance and under the Defeased Note in the case of a Partial Defeasance for all Debt Service Payment Dates occurring after the Defeasance Date and up to and including the Effective Maturity Date (including, in the case of a Total Defeasance, the outstanding principal balance on the Note as of the Effective Maturity Date and, in the case of a Partial Defeasance, the outstanding principal balance on the Defeased Note as of the Effective Maturity Date), and all payments required after the Defeasance Date, if any, under the Loan Documents for servicing fees, Rating Surveillance Charges and other similar charges.

"**Second Mortgages**" shall have the meaning set forth in Section 2.8.

"**Secondary Market Transaction**" shall have the meaning set forth in Section 9.1(a).

"**Securities**" shall have the meaning set forth in Section 9.1(a).

"**Securities Act**" shall have the meaning set forth in Section 9.2(a).

"**Securitization**" shall have the meaning set forth in Section 9.1(a).

"**Security Agreement**" shall mean a security agreement in form and substance satisfactory to Lender pursuant to which an Individual Borrower grants Lender a perfected, first priority security interest in the Defeasance Collateral Account, the Total Defeasance Collateral and the Partial Defeasance Collateral, as applicable, of such Individual Borrower.

"**Servicer**" shall have the meaning set forth in Section 11.23.

"**Servicing Agreement**" shall have the meaning set forth in Section 11.23.

"**Severed Loan Documents**" shall have the meaning set forth in Section 10.2(c).

"**SPC Party**" shall have the meaning set forth in Section 3.1.24(z).

"**State**" shall mean, with respect to an Individual Property, the State or Commonwealth in which such Individual Property or any part thereof is located.

"**Subsequent Funding Date**" shall mean July 20, 1999.

"**Substitute Property**" shall have the meaning set forth in Section 2.7.1 hereof.

"**Substitute Allocated Loan Amount**" shall have the meaning set forth in Section 2.7.1(f) hereof.

"**Substituted Property**" shall have the meaning set forth in Section 2.7.1 hereof.

"**Successor Borrower**" shall have the meaning set forth in Section 2.5.4.

"**Survey**" shall mean a survey of the Individual Property in question prepared by a surveyor licensed in the State and satisfactory to Lender and the company or companies issuing the Title Insurance Policies, and containing a certification of such surveyor satisfactory to Lender.

"**Swissôtels**" shall mean, collectively, the following Individual Properties: (i) the Atlanta Swissôtel located in Atlanta, Georgia, (ii) the Boston Swissôtel located in Boston, Massachusetts, (iii) the Chicago Swissôtel located in Chicago, Illinois and (iv) the Drake Swissôtel located in New York, New York.

"**Tax Funds**" shall have the meaning set forth in Section 6.2.1.

"**Taxes**" shall mean all real estate and personal property taxes, assessments, fees, taxes on rents or rentals, water rates or sewer rents and other governmental charges, now or hereafter levied or assessed or imposed against any of the Individual Properties or part thereof.

"**Tenant**" shall mean any Person obligated under any Lease now or hereafter affecting all or any part of any Individual Property.

"**Tenant Deposit Account**" shall mean, with respect to each Individual Property, the account established pursuant to the Deposit Account Agreement from which Hotel Lease Rent will be transferred to the Cash Management Account.

"**Title Insurance Policies**" shall mean, with respect to each Individual Property, ALTA mortgagee title insurance policies in form acceptable to Lender issued with respect to such Individual Property and insuring the lien of the Mortgage encumbering such Individual Property, subject only to such customary, nonmaterial exceptions as Lender shall approve in Lender's reasonable discretion.

"**Total Defeasance**" shall have the meaning set forth in Section 2.5.1 hereof.

"**Total Defeasance Collateral**" shall mean U.S. Obligations, which provide payments (i) on or prior to, but as close as possible to, all Debt Service Payment Dates and other scheduled payment dates, if any, under the Note after the Defeasance Date and up to and including the Effective Maturity Date, and (ii) in amounts equal to or greater than the Scheduled Defeasance Payments.

"**Treasury Rate**" shall mean, as of the Effective Maturity Date, the yield, calculated by linear interpolation (rounded to the nearest one-thousandth of one percent (*i.e.*, 0.001%) of the yields of noncallable United States Treasury obligations with terms (one longer and one shorter) most nearly approximating the period from such date of determination to the Maturity Date, as determined by Lender on the basis of Federal Reserve Statistical Release H.15-Selected Interest Rates under the heading U.S. Governmental Security/Treasury Constant Maturities, or another recognized source of financial market information selected by Lender.

"**UCC**" or "**Uniform Commercial Code**" shall mean the Uniform Commercial Code as in effect in the applicable State in which an Individual Property is located.

"**Undefeased Note**" shall have the meaning set forth in Section 2.5.2(iv) hereof.

"**Underwriter Group**" shall have the meaning set forth in Section 9.2(b).

"**Updated Information**" shall have the meaning set forth in Section 9.1(b)(i).

"**U.S. Obligations**" shall mean direct full faith and credit obligations of the United States of America that are not subject to prepayment, call or early redemption.

"**Yield Maintenance Premium**" shall mean an amount equal to the greater of: (i) one percent (1%) of the principal amount of the Loan being prepaid or (ii) the present value as of the Prepayment Date of the Calculated Payments from the Prepayment Date through the Effective Maturity Date determined by discounting such payments at the Discount Rate. As used in this definition, the term "**Prepayment Date**" shall mean the date on which prepayment is made. As used in this definition, the term "**Calculated Payments**" shall mean the monthly payments of interest only which would be due based on the principal amount of the Loan being prepaid on the Prepayment Date and assuming an interest rate per annum equal to the difference (if such difference is greater than zero) between (y) the Initial Interest Rate and (z) the Yield Maintenance Treasury Rate. As used in this definition, the term "**Discount Rate**" shall mean the rate which, when compounded monthly, is equivalent to the Yield Maintenance Treasury Rate, when compounded semi-annually. As used in this definition, the term "**Yield Maintenance Treasury Rate**" shall mean the yield calculated by the linear interpolation of the yields, as reported in the Federal Reserve Statistical Release H.15-Selected Interest Rates under the heading U.S. Government Securities/Treasury Constant Maturities for the week ending prior to the Prepayment Date, of U.S. Treasury Constant Maturities with maturity dates (one longer or one shorter) most nearly approximating the Effective Maturity Date. In the event Release H.15 is no longer published, Lender shall select a comparable publication to determine the Yield Maintenance Treasury Rate. In no event, however, shall Lender be required to reinvest any prepayment proceeds in U.S. Treasury obligations or otherwise.

Section 1.2 Principles of Construction.

All references to sections and schedules are to sections and schedules in or to this Agreement unless otherwise specified. Unless otherwise specified, the words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all meanings attributed to defined terms herein shall be equally applicable to both the singular and plural forms of the terms so defined. The words "includes", "including" and similar terms shall be construed as if followed by the words "without limitation".

II. THE LOAN

Section 2.1 The Loan.

2.1.1 Agreement to Lend and Borrow. Subject to and upon the terms and conditions set forth herein, Lender shall make the Loan to Borrower and Borrower shall accept the Loan from Lender in the original principal amount of Six Hundred Sixty-Five Million and No/100 Dollars ($665,000,000), of which Six Hundred Fifty Million and No/100 Dollars ($650,000,000) shall be funded on the Closing Date and Fifteen Million and No/100 Dollars ($15,000,000) shall be funded on the Subsequent Funding Date.

2.1.2 Disbursements to Borrower. Borrower shall receive only one borrowing hereunder in respect of the Loan, which borrowing shall be made in two disbursements as set forth in Section 2.1.1 above, and any amount borrowed and repaid hereunder in respect of the Loan may not be reborrowed.

2.1.3 The Note. The Loan shall be evidenced by an amended, restated and consolidated note made by Borrower to Lender in the original principal amount of Six Hundred Sixty-Five Million and No/100 Dollars ($665,000,000) (as the same may be amended, supplemented, restated, increased, extended and consolidated, together with any Defeased Notes and Undefeased Note that may exist from time to time, the "**Note**").

2.1.4 Use of Proceeds. Borrower shall use proceeds of the Loan on the Closing Date to (i) pay and discharge any existing loans relating to the Individual Properties, (ii) pay all past-due Basic Carrying Costs, if any, in respect of the Individual Properties, (iii) deposit the required Funds and (iv) pay costs and expenses incurred in connection with the closing of the Loan, as approved by Lender, and may use the balance, if any, for any purposes not prohibited by this Agreement.

2.1.5 Modification of Components. Lender shall have the right, at any time prior to a Securitization, to modify the Loan in order to create additional Components, reduce the number of Components, revise the interest rate for the Components, reallocate the principal balances of the Components or eliminate the Component structure of the Loan provided that (a) the total principal balance of the Loan as of the effective date of such modification equals the outstanding principal balance of the Loan immediately prior to such modification, (b) the weighted average of the Applicable Interest Rates of all of the Components (or the Applicable Interest Rate for the Loan in connection with an elimination of the Component structure) as of the effective date of such modification equals the weighted average of the Applicable Interest Rates of all of the Components immediately prior to such modification, (c) the Monthly Debt Service Payment Amount immediately after such modification equals the Monthly Debt Service Payment Amount immediately prior to such modification and (d) the Applicable Interest Rate for each of the Components shall be a fixed rate. Lender shall have the right to modify the Components in accordance with this Section 2.1.5 upon notice to Borrower (in which event such modification shall then be deemed effective). If requested by Lender, Borrower shall promptly execute an amendment to this Agreement to evidence such modification.

Section 2.2 Interest Rate.

2.2.1 <u>Initial Interest Rate</u>. Interest on the outstanding principal balance of each Component of the Loan shall accrue from the Closing Date up to but excluding the Effective Maturity Date at the Initial Interest Rate.

2.2.2 <u>Adjusted Interest Rate</u>. Interest on the outstanding principal balance of each Component of the Loan shall accrue from and including the Effective Maturity Date to and including the Maturity Date at the Adjusted Interest Rate.

2.2.3 <u>Default Rate</u>. In the event that, and for so long as, any Event of Default shall have occurred and be continuing, the outstanding principal balance of the Loan and, to the extent permitted by law, overdue interest in respect of the Loan, shall accrue interest at the Default Rate, calculated from the date such payment was due without regard to any grace or cure periods contained herein.

2.2.4 <u>Interest Calculation</u>. Interest on the outstanding principal balance of each Component shall be calculated on the basis of a 360 day year of twelve 30 day months. The accrual period for calculating interest due on each Debt Service Payment Date shall be the calendar month immediately prior to such Debt Service Payment Date.

2.2.5 <u>Usury Savings</u>. This Agreement and the other Loan Documents are subject to the express condition that at no time shall Borrower be required to pay interest on the principal balance of the Loan at a rate which could subject Lender to either civil or criminal liability as a result of being in excess of the Maximum Legal Rate. If by the terms of this Agreement or the other Loan Documents, Borrower is at any time required or obligated to pay interest on the principal balance due hereunder at a rate in excess of the Maximum Legal Rate, the Applicable Interest Rate or the Default Rate, as the case may be, shall be deemed to be immediately reduced to the Maximum Legal Rate and all previous payments in excess of the Maximum Legal Rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the sums due under the Loan, shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Loan until payment in full so that the rate or amount of interest on account of the Loan does not exceed the Maximum Legal Rate from time to time in effect and applicable to the Loan for so long as the Loan is outstanding.

Section 2.3 Loan Payments.

2.3.1 <u>Payment Before Effective Maturity Date</u>. Borrower shall make a payment to Lender of interest only on the Debt Service Payment Date occurring in August, 1999 for the period from the Closing Date through the last day of the month in which the Closing Date occurs. Borrower shall make a payment to Lender of principal and interest in the amount of the Monthly Debt Service Payment Amount on the Debt Service Payment Date occurring in September, 1999 and on each Debt Service Payment Date thereafter to and including the Effective Maturity Date. Provided no Event of Default shall have occurred, each payment shall be applied (a) first to accrued and unpaid interest on all of the Components and (b) the balance shall be applied to principal of the Components in alphabetical order.

2.3.2 Payments After Effective Maturity Date. On each Debt Service Payment Date occurring from and after the Effective Maturity Date Borrower shall (a) make a payment to Lender of principal and interest in the amount of the Monthly Debt Service Payment Amount, such payment to be applied to interest in an amount equal to interest that would have accrued on the outstanding principal balance of each Component of the Loan (without adjustment for Accrued Interest) at the Initial Interest Rate and the balance applied to principal of the Components in the manner specified in Section 2.3.1 and (b) pay to Lender amounts to be applied to principal of the Components as set forth in Section 3.3(b) of the Cash Management Agreement. Interest accrued at the Adjusted Interest Rate and not paid pursuant to the preceding sentence shall be added to the outstanding principal balance on the first day of the following month and shall earn interest at the Adjusted Interest Rate to the extent permitted by law (such accrued interest, "**Accrued Interest**").

2.3.3 Payment on Maturity Date. Borrower shall pay to Lender on the Maturity Date the outstanding principal balance of the Loan, all accrued and unpaid interest (including without limitation the Accrued Interest) and all other amounts due hereunder and under the Note, the Mortgages and the other Loan Documents. Lender shall have the right, at any time prior to the closing of a Securitization, to change the Maturity Date from the Maturity Date stated herein to the date of the Effective Maturity Date stated herein upon notice to Borrower (in which event such change shall then be deemed effective and all provisions of the Loan Documents with respect to periods after the Effective Maturity Date shall no longer apply.

2.3.4 Late Payment Charge. If any principal, interest or any other sum due under the Loan Documents is not paid by Borrower on the date on which it is due, Borrower shall pay to Lender upon demand an amount equal to the lesser of five percent (5%) of such unpaid sum or the maximum amount permitted by applicable law in order to defray the expense incurred by Lender in handling and processing such delinquent payment and to compensate Lender for the loss of the use of such delinquent payment; provided, however, that Borrower shall not be required to pay such amount in connection with the failure to pay a monthly installment of Debt Service on the date due if sufficient funds were on deposit in the Monthly Debt Service Account (as defined in the Cash Management Agreement) on such date and Lender failed to apply same to the payment of Debt Service. Any amount payable by Borrower pursuant to this Section 2.3.4 shall be secured by the Mortgages and the other Loan Documents.

2.3.5 Method and Place of Payment. (a) Except as otherwise specifically provided herein, all payments and prepayments under this Agreement and the Note shall be made to Lender not later than 1:00 P.M., New York City time, on the date when due and shall be made in lawful money of the United States of America in immediately available funds at Lender's office, and any funds received by Lender after such time shall, for all purposes hereof, be deemed to have been paid on the next succeeding Business Day.

(b) Whenever any payment to be made hereunder or under any other Loan Document shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable at the Applicable Interest Rate or the Default Rate, as the case may be, during such extension.

2.3.6 Payments After Event of Default. Any amounts received by Lender following the occurrence of an Event of Default may be applied by Lender toward the payment of interest and/or principal of any of the Components and/or any other amounts due under the Loan Documents in such order, priority and proportions as Lender in its sole discretion shall determine.

Section 2.4 Prepayments.

2.4.1 Voluntary Prepayments. Except as otherwise provided herein, Borrower shall not have the right to prepay the Loan in whole or in part. On or after the date that is ninety (90) days prior to the Effective Maturity Date through and including the Effective Maturity Date, Borrower may, at its option and upon ten (10) days notice to Lender, prepay the Debt in whole, but not in part, on any Debt Service Payment Date without payment of the Yield Maintenance Premium or any other premium or penalty; provided that prior notice shall not be required for a prepayment made on the Effective Maturity Date. On any Debt Service Payment Date after the Effective Maturity Date, Borrower may, at its option and upon ten (10) days notice to Lender, prepay the Debt in whole or in part without payment of the Yield Maintenance Premium or any other premium or penalty. Any partial prepayment shall be applied to principal due under any one or more of the Components in the order specified in Section 2.3.1.

2.4.2 Mandatory Prepayments. On each date on which Lender actually receives a distribution of Net Proceeds with respect to any Individual Property, and if Lender is not required to make such Net Proceeds available to Borrower for the restoration of such Individual Property as set forth herein, Borrower shall, at Lender's option, prepay the outstanding principal balance of the Components in the order specified in Section 2.3.1 in an amount equal to one hundred percent (100%) of such Net Proceeds together with interest that would have accrued on such amount through the next Debt Service Payment Date. No Yield Maintenance Premium shall be due in connection with any prepayment made pursuant to this Section 2.4.2. The Allocated Loan Amount with respect to such Individual Property will be reduced in an amount equal to such prepayment.

2.4.3 Prepayments After Default. If after an Event of Default, payment of all or any part of the principal of the Loan is tendered by Borrower, a purchaser at foreclosure or any other Person, such tender shall be deemed an attempt to circumvent the prohibition against prepayment set forth in Section 2.4.1 and Borrower, such purchaser at foreclosure or other Person shall pay the Yield Maintenance Premium, in addition to the outstanding principal balance of the Components in the order specified in Section 2.3.1, all accrued and unpaid interest and other amounts payable under the Loan Documents.

Section 2.5 Defeasance.

2.5.1 Total Defeasance. (a) Provided no Event of Default shall have occurred and remain uncured, Borrower shall have the right at any time after the Release Date and prior to the date that is ninety (90) days prior to the Effective Maturity Date to obtain a release of the

Lien of the Mortgages encumbering all Individual Properties (a “**Total Defeasance**”) upon satisfaction of the following conditions:

(i) Borrower shall provide Lender thirty (30) days written notice specifying a Debt Service Payment Date (the “**Defeasance Date**”) on which Borrower shall have satisfied the conditions in this Section 2.5.1 and on which it shall effect the defeasance;

(ii) Borrower shall pay to Lender (A) all accrued and unpaid interest on the principal balance of the Note to and including the Defeasance Date and (B) all other sums then due under the Note, this Agreement, the Mortgages and the other Loan Documents;

(iii) Borrower shall deposit the Total Defeasance Collateral into the Defeasance Collateral Account and otherwise comply with the provisions of Sections 2.5.3 and 2.5.4 hereof;

(iv) Borrower shall execute and deliver to Lender a Security Agreement in respect of the Defeasance Collateral Account and the Total Defeasance Collateral;

(v) Borrower shall deliver to Lender an opinion of counsel for Borrower that would be satisfactory to a prudent lender opining, among other things, that (A) Lender has a legal and valid perfected first priority security interest in the Defeasance Collateral Account and the Total Defeasance Collateral, (B) if a Securitization has occurred, the REMIC Trust formed pursuant to such Securitization will not fail to maintain its status as a “real estate mortgage investment conduit” within the meaning of Section 860D of the Code as a result of the defeasance pursuant to this Section 2.5.1 and that the defeasance does not constitute a “significant modification” of the Loan under Section 1001 of the Code or otherwise cause a tax to be imposed on a “prohibited transaction” by any REMIC Trust, (C) a defeasance pursuant to this Section 2.5.1 will not result in a deemed exchange for purposes of the Code and will not adversely effect the status of the Note as indebtedness for federal income tax purposes, (D) delivery of the Total Defeasance Collateral and the grant of a security interest therein to Lender shall not constitute an avoidable preference under Section 547 of the Bankruptcy Code or applicable state law and (E) a non-consolidation opinion with respect to the Successor Borrower;

(vi) If a Securitization has occurred, Borrower shall deliver to Lender a confirmation in writing from the applicable Rating Agencies to the effect that the release of the Individual Properties from the Lien of the Mortgage as contemplated by this Section 2.5.1 and the substitution of the Total Defeasance Collateral will not result in a downgrading, withdrawal or qualification of the respective ratings in effect immediately prior to such defeasance for the Securities issued in connection with the Securitization which are then outstanding;

(vii) Borrower shall deliver an Officer’s Certificate certifying that the requirements set forth in this Section 2.5.1(a) have been satisfied;

(viii) Borrower shall deliver a certificate of Borrower’s independent certified public accountant certifying that the Total Defeasance Collateral will generate monthly amounts equal to or greater than the Scheduled Defeasance Payments;

(ix) Borrower shall deliver such other certificates, opinions, documents and instruments as Lender may reasonably request; and

(x) Borrower shall pay all costs and expenses of Lender incurred in connection with the defeasance, including Lender's reasonable attorneys' fees and expenses and Rating Agency fees and expenses.

(b) If Borrower has elected to defease the entire Note and the requirements of this Section 2.5 have been satisfied, all of the Individual Properties shall be released from the Liens of their respective Mortgages and any other Loan Documents and the Total Defeasance Collateral, pledged pursuant to the Security Agreement, shall be the sole source of collateral securing the Note. Borrower shall be released from its obligations under the Note and the other Loan Documents (except with respect to obligations that specifically survive the repayment of the Debt) upon the assumption of Borrower's obligations by a Successor Borrower. In connection with the release of the Liens, Borrower shall submit to Lender, not less than thirty (30) days prior to the Defeasance Date, a release of Lien (and related Loan Documents) for execution by Lender. Such release shall be in a form appropriate in each jurisdiction in which an Individual Property is located and that would be satisfactory to a prudent lender. In addition, Borrower shall provide all other documentation Lender reasonably requires to be delivered by Borrower in connection with such release, together with an Officer's Certificate certifying that such documentation (i) is in compliance with all Legal Requirements, and (ii) will effect such releases in accordance with the terms of this Agreement. Borrower shall pay all costs, taxes and expenses associated with the release of the Lien of the Mortgages, including Lender's reasonable attorneys' fees. Except as set forth in this Section 2.5, no repayment, prepayment or defeasance of all or any portion of the Note shall cause, give rise to a right to require, or otherwise result in, the release of any Lien of any Mortgage on any of the Individual Properties.

2.5.2 **Partial Defeasance**. (a) Provided no Event of Default shall have occurred and remain uncured, Borrower shall have the right at any time and from time to time after the Release Date and prior to the date that is ninety (90) days prior to the Effective Maturity Date to obtain a release of the Lien of the Mortgages encumbering one or more Individual Properties other than the Marriott Marquis (a "**Partial Defeasance**") upon satisfaction of the following conditions:

(i) Borrower shall provide Lender thirty (30) days written notice specifying (A) a Debt Service Payment Date (the "**Partial Defeasance Date**") on which Borrower shall have satisfied the conditions in this Section 2.5.2 and shall effect the defeasance and (B) the Individual Property or Properties proposed to be released from the Lien of the Mortgages (individually a "**Release Property**" and collectively the "**Release Properties**");

(ii) Borrower shall pay to Lender (A) all accrued and unpaid interest on the principal balance of the Note to and including the Partial Defeasance Date and (B) all other sums then due under the Note, this Agreement, the Mortgages and the other Loan Documents;

(iii) Borrower shall deposit the Partial Defeasance Collateral into the Defeasance Collateral Account and otherwise comply with the provisions of Sections 2.5.3 and 2.5.4 hereof;

(iv) Borrower shall prepare all necessary documents to modify this Agreement and to amend and restate the Note and issue two substitute notes, one note having a principal balance equal to one hundred twenty-five percent (125%) of the Allocated Loan Amount for the Release Property or Release Properties, as the case may be (the "**Defeased Note**"), and the other note having a principal balance equal to the excess of (A) the original principal amount of the Loan, over (B) the amount of Defeased Note (the "**Undefeased Note**"). The Defeased Note and Undefeased Note shall have identical terms as the Note except for the principal balance. The Components shall be allocated between the Defeased Note and the Undefeased Note on a pro-rata basis based upon the Allocated Loan Amount for the Individual Property being released and the Allocated Loan Amounts for the remaining Individual Properties. The Defeased Note and the Undefeased Note shall not be cross defaulted and cross collateralized. A Defeased Note may not be the subject of any further defeasance;

(v) Borrower shall execute and deliver to Lender a Security Agreement in respect of the Defeasance Collateral Account and the Partial Defeasance Collateral;

(vi) Immediately after giving effect to the release of the Lien of the Mortgages encumbering the Individual Property or Individual Properties proposed by Borrower to be released, the Debt Service Coverage Ratio with respect to the remaining Individual Properties is not less than the greater of (A) the Debt Service Coverage Ratio of all Individual Properties immediately prior to the release and (B) 2.68x.

(vii) Borrower shall have delivered to Lender and the Rating Agencies shall have received from Borrower with respect to the matters referred to in clause (vi), (A) statements of the Net Cash Flow and Debt Service (both on a consolidated basis and separately for the applicable Individual Property or Individual Properties to be released) for the applicable measuring period, (B) based on the foregoing statements of Net Cash Flow and Debt Service, calculations of the Debt Service Coverage Ratio both with and without giving effect to the proposed release and (C) a calculation of the Debt Service Coverage Ratio referred to in such clause (vi), accompanied by an Officer's Certificate stating that such statements, calculations and information are true, correct and complete in all material respects;

(viii) Borrower shall deliver to Lender an opinion of counsel for Borrower that would be reasonably satisfactory to a prudent lender (with customary exceptions and assumptions) opining, among other things, that (A) Lender has a legal and valid perfected first priority security interest in the Defeasance Collateral Account and the Partial Defeasance Collateral, (B) if a Securitization has occurred, the REMIC Trust formed pursuant to such Securitization will not fail to maintain its status as a "real estate mortgage investment conduit" within the meaning of Section 860D of the Code as a result of the defeasance pursuant to this Section 2.5.2 and that the defeasance does not constitute a "significant modification" of the Loan under Section 1001 of the Code or otherwise cause a tax to be imposed on a "prohibited transaction" by any REMIC Trust, (C) a defeasance pursuant to this Section 2.5.2 will not result in a deemed exchange for purposes of the Code and will not adversely effect the status of the Defeased Note and the Undefeased Note as indebtedness for federal income tax purposes, (D) delivery of the Partial Defeasance Collateral and the grant of a security interest therein to Lender shall not constitute an avoidable preference under Section 547 of the Bankruptcy Code or applicable state law and (E) a non-consolidation opinion with respect to the Successor Borrower;

(ix) Borrower shall deliver to Lender evidence in writing from the applicable Rating Agencies to the effect that the release of the Individual Property or Individual Properties from the Lien of the Mortgage as contemplated by this Section 2.5.2 and the substitution of the Partial Defeasance Collateral will not result in a downgrading, withdrawal or qualification of the respective ratings in effect immediately prior to such defeasance for the Securities issued in connection with the Securitization which are then outstanding;

(x) Borrower shall deliver to Lender a certificate of Borrower's independent certified public accountant certifying that the Partial Defeasance Collateral will generate monthly amounts equal to or greater than the Scheduled Defeasance Payments;

(xi) Borrower shall deliver to Lender an Officer's Certificate certifying that the requirements set forth in this Section 2.5.2(a) have been satisfied;

(xii) Borrower shall deliver to Lender such other certificates, documents or instruments as Lender may reasonably request; and

(xiii) Borrower shall pay all costs and expenses of Lender incurred in connection with the defeasance, including Lender's reasonable attorneys' fees and expenses and Rating Agency expenses.

(b) If Borrower has elected to make a Partial Defeasance and the requirements of this Section 2.5 have been satisfied, the Release Property or Release Properties shall be released from the Lien of their Mortgage. Each Individual Borrower shall be released from its obligations under the Note and the other Loan Documents (except with respect to obligations that specifically survive the repayment of the Debt) upon the release of all of the Individual Properties owned by such Borrower in accordance with this Section 2.5.2 and the assumption of such Individual Borrower's obligations by a Successor Borrower. In connection with the release of the Lien, Borrower shall submit to Lender, not less than thirty (30) days prior to the Partial Defeasance Date, a release of Lien (and related Loan Documents) for execution by Lender. Such release shall be in a form appropriate in the jurisdiction in which such Individual Property is located and that would be satisfactory to a prudent lender. In addition, Borrower shall provide all other documentation Lender reasonably requires to be delivered by Borrower in connection with such release, together with an Officer's Certificate certifying that such documentation (i) is in compliance with all Legal Requirements, and (ii) will effect such releases in accordance with the terms of this Agreement. Borrower shall pay all costs, taxes and expenses associated with the release of the Lien of the Mortgages, including Lender's reasonable attorneys' fees. Borrower shall cause title to the Individual Property so released from the Lien of the Mortgage to be transferred to and held by a Person other than Borrower. Except as set forth in this Section 2.5, no repayment, prepayment or defeasance of all or any portion of the Note shall cause, give rise to a right to require, or otherwise result in, the release of any Lien of any Mortgage on any of the Individual Properties.

2.5.3 <u>Defeasance Collateral Account</u>. On or before the date on which Borrower delivers the Total Defeasance Collateral or Partial Defeasance Collateral, Successor Borrower shall open at any Eligible Institution the defeasance collateral account (the "**Defeasance Collateral Account**") which shall at all times be an Eligible Account. The Defeasance Collateral Account shall contain only (i) Total Defeasance Collateral or Partial Defeasance Collateral, as applicable, and (ii) cash from interest and principal paid on the Total Defeasance Collateral or Partial Defeasance Collateral. All cash from interest and principal payments paid on the Total Defeasance Collateral or Partial Defeasance Collateral shall be paid over to Lender on each Debt Service Payment Date and applied first to accrued and unpaid interest and then to principal. Any cash from interest and principal paid on the Total Defeasance Collateral or the Partial Defeasance Collateral not needed to pay accrued and unpaid interest or principal shall be retained in the Defeasance Collateral Account as additional collateral for the Loan. Borrower shall cause the Eligible Institution at which the Total Defeasance Collateral and Partial Defeasance Collateral are deposited to enter an agreement with Borrower and Lender, satisfactory to Lender in its sole discretion, pursuant to which such Eligible Institution shall agree to hold and distribute the Total Defeasance Collateral or Partial Defeasance Collateral, as applicable, in accordance with this Agreement. The Successor Borrower shall be the owner of the Defeasance Collateral Account and shall report all income accrued on Total Defeasance Collateral and Partial Defeasance Collateral for federal, state and local income tax purposes in its income tax return. Borrower shall prepay all costs and expenses associated with opening and maintaining the Defeasance Collateral Account. Lender shall not in any way be liable by reason of any insufficiency in the Defeasance Collateral Account.

2.5.4 <u>Successor Borrower</u>. In connection with a Total Defeasance or Partial Defeasance under this Section 2.5, Borrower shall establish or designate a successor entity (the "**Successor Borrower**") which shall be a single purpose bankruptcy remote entity approved by Lender that is not directly or indirectly owned by Borrower, provided, however, the Successor Borrower may be directly or indirectly owned by Host and/or HMC. Borrower shall transfer and assign all obligations, rights and duties under and to the Note or the Defeased Note, as applicable, together with the Total Defeasance Collateral or the Partial Defeasance Collateral, as applicable, to such Successor Borrower. Such Successor Borrower shall assume the obligations under the Note or the Defeased Note, as applicable, and the Security Agreement and Borrower shall be relieved of its obligations under such documents. Borrower shall pay $1,000 to any such Successor Borrower as consideration for assuming the obligations under the Note or the Defeased Note, as applicable, and the Security Agreement. Borrower shall pay all costs and expenses incurred by Lender, including Lender's attorney's fees and expenses, incurred in connection therewith.

Section 2.6 Cash Management.

Borrower shall direct the Managers and the Hotel Lessees to deposit all Rents in accordance with the Deposit Account Agreements and the Cash Management Agreement and, upon the termination or expiration of a Hotel Lease, shall execute amendments to the related Deposit Account Agreement and Cash Management Agreement to provide that until a replacement Hotel Lease has been entered into (a) all amounts that were previously deposited in the related Tenant Deposit Account shall be deposited in a newly-created Eligible Account in which Lender has a perfected security interest and (b) any monies payable to the Hotel Lessee may be payable to Borrower. On the applicable Rent Payment Date, funds in the amount of the applicable Hotel Lease Rent (less any amounts previously paid by the Manager that are credited against Hotel Lease Rent) shall be transferred from the Tenant Deposit Accounts established pursuant to the Deposit Account Agreements to the Cash Management Account established pursuant to the Cash Management Agreement. In accordance with the Cash Management Agreement, amounts transferred to the Cash Management Account will be disbursed for the monthly payment of Debt Service, to the required deposits to the Funds, to other amounts then due under the Loan and then to Borrower; provided, however, that (a) at any time the Base Profit drops below $96,000,000 (as reduced by the product of (1) the Allocated Percentage with respect to any Individual Property that has been the subject of a Partial Defeasance or the reduction in the Allocated Percentage with respect to any Individual Property that has had its Allocated Loan Amount reduced due to the application of Net Proceeds and (2) $96,000,000), no amounts shall be released to Borrower until such time as the Base Profit equals or exceeds $96,000,000 (as reduced by the product of (1) the Allocated Percentage with respect to any Individual Property that has been the subject of a Partial Defeasance or the reduction in the Allocated Percentage with respect to any Individual Property that has had its Allocated Loan Amount reduced due to the application of Net Proceeds and (2) $96,000,000) for two (2) consecutive quarters and (b) no amounts shall be released to Borrower after the occurrence of an earthquake or casualty covered under an earthquake insurance policy until an amount equal to the deductible payable under an earthquake insurance policy has been retained pursuant to the Cash Management Agreement.

Section 2.7 Property Substitutions.

2.7.1 <u>Conditions to Substitution</u>. Subject to the terms and conditions set forth in this Section 2.7, Borrower may obtain a release of the Lien of a Mortgage and the related Loan Documents encumbering an Individual Property (each, a “**Substituted Property**” and collectively, the “**Substituted Properties**”) by substituting therefor another full service hotel property (a “**Substitute Property**”) of comparable or better quality and physical condition to that of the Substituted Property on the Closing Date acquired by Borrower (or owned by a subsidiary of Host that satisfies the then-current criteria of the Rating Agencies, as evidenced by written confirmation from the Rating Agencies that the inclusion of such subsidiary as a Borrower will not result in the qualification, downgrade or withdrawal of the then current ratings assigned to the Securities), provided that (a) during the course of the Loan, the Base Profit with respect to the Substituted Properties does not represent in the aggregate more than twenty-five percent (25%) of the lesser of the 1998 Base Profit for all of the Individual Properties and the Base Profit for all of the Individual Properties for the twelve (12) month period immediately preceding the date of substitution, (b) no such substitution may occur after the Effective Maturity Date, (c) such substitution shall not be allowed for the Marriott Marquis at any time during the term of the Loan, (d) the total Allocated Loan Amounts for the Substituted Properties is no more than twenty-five percent (25%) of the Loan Amount, (e) such substitution shall not be allowed for more than three (3) Individual Properties during the term of the Loan and (f) no such substitution shall be permitted prior to the earlier to occur of (i) the first anniversary of the Closing Date and (ii) the final Securitization involving this Loan. In addition, any such substitution shall be subject, in each case, to the satisfaction of the following conditions precedent:

(a) Simultaneously with the substitution, the Individual Borrower that owns the Substituted Property shall convey fee simple title to the Substituted Property to a Person other than an Individual Borrower if such Individual Borrower will continue to own another Individual Property after such substitution.

(b) Lender shall have received an appraisal of the Substitute Property dated no more than sixty (60) days prior to the substitution by an appraiser acceptable to the Rating Agencies, indicating an appraised value of the Substitute Property that is equal to or greater than the value of the Substituted Property determined by Lender at the time of the encumbrance of the Substituted Property by the related Mortgage at or about the Closing Date.

(c) Immediately after giving effect to the substitution, the Debt Service Coverage Ratio for the Loan for all of the Individual Properties (including the Substitute Property but excluding the Substituted Property) is not less than the greater of (i) 2.68x (including the Substituted Property but excluding the Substitute Property) and (ii) the Debt Service Coverage Ratio for the Loan for all of the Individual Properties (including the Substituted Property but excluding the Substitute Property) as of the date immediately preceding the substitution, based upon the then-outstanding principal balance of the Loan, an amortization period of twenty (20) years and an interest rate equal to the then-current weighted average of the Applicable Interests Rates of the Components.

(d) Lender shall have received confirmation in writing from the Rating Agencies to the effect that such substitution will not result in a withdrawal, qualification or downgrade of the respective ratings in effect immediately prior to such substitution for the Securities issued in connection with the Securitization that are then outstanding. If a Securitization has not occurred, Lender shall have approved the Substitute Property in its reasonable discretion.

(e) No Default or Event of Default shall have occurred and be continuing and Borrower shall be in compliance in all material respects with all terms and conditions set forth in this Agreement and in each Loan Document on Borrower’s part to be observed or performed. Lender shall have received an Officer’s Certificate in form and substance satisfactory to the Rating Agencies confirming the foregoing, stating that the representations and warranties of Borrower contained in this Agreement and the other Loan Documents including, without limitation, the representations and warranties set forth in Section 3.1 of this Agreement, are true and correct in all material respects on and as of the date of the substitution with respect to Borrower, the Individual Properties and the Substitute Property and containing any other representations and warranties with respect to Borrower, the Individual Properties, the Substitute Property or the Loan as the Rating Agencies may require and as are customary in property substitutions similar to the substitution of the Substitute Property for the Substituted Property in connection with lending transactions similar to the Loan and as are consistent with the facts covered by such representations and warranties as they exist as of the date thereof, which representations and warranties shall survive for so long as any amount remains payable to Lender under this Agreement or any of the other Loan Documents, it being understood, however, that such representations and warranties shall have been made only as of the date of the substitution.

(f) Borrower shall have executed, acknowledged and delivered to Lender (i) a Mortgage, an Assignment of Leases and two UCC Financing Statements for jurisdictions requested by Lender with respect to the Substitute Property, together with a letter from Borrower countersigned by a title insurance company acknowledging receipt of such Mortgage, Assignment of Leases and UCC-1 Financing Statements and agreeing to record or file, as applicable, such Mortgage, Assignment of Leases and Rents and one of the UCC-1 Financing Statements in the real estate records for the county in which the Substitute Property is located and to file one of the UCC-1 Financing Statements in the office of the Secretary of State of the state in which the Substitute Property is located, so as to effectively create upon such recording and filing valid and enforceable Liens upon the Substitute Property, of the requisite priority, in favor of Lender (or such other trustee as may be desired under local law), subject only to the Permitted Encumbrances and such other Liens as are permitted pursuant to the Loan Documents, (ii) an Environmental Indemnity with respect to the Substitute Property, and (iii) such amendments to the Loan Documents as may be required in order to evidence the substitution. The Mortgage, Assignment of Leases, UCC-1 Financing Statements and Environmental Indemnity shall be the same in form and substance as the counterparts of such documents executed and delivered with respect to the related Substituted Property subject to modifications reflecting the Substitute Property as the Individual Property that is the subject of such documents and such modifications reflecting the laws of the state in which the Substitute Property is located as shall be recommended by the counsel admitted to practice in such state and delivering the opinion as to the enforceability of such documents required pursuant to clause (n) below. The Mortgage encumbering the Substitute Property shall secure all amounts evidenced by the Note, provided that in the event that the jurisdiction in which the Substitute Property is located imposes a mortgage recording, intangibles or similar tax and does not permit the allocation of indebtedness for the purpose of determining the amount of such tax payable, the principal amount secured by such Mortgage shall be equal to one hundred twenty-five percent (125%) of the amount of the Loan allocated to the Substitute Property; provided, however, that simultaneously with any such substitution Borrower shall deliver to Lender a Second Mortgage for such Substitute Property in an amount equal to twenty-five percent (25%) of the amount of the Loan allocated to the Substitute Property which Lender shall have the right to record in accordance with the provisions of Section 2.8 of this Agreement. The amount of the Loan allocated to, and the Allocated Loan Amount of, the Substitute Property (such amount being hereinafter referred to as the "**Substitute Allocated Loan Amount**") shall equal the Allocated Loan Amount of the related Substituted Property. In the event that the Substitute Property is owned by a Person that is not a Borrower prior to such substitution, such Person shall execute and deliver an agreement reasonably acceptable to Lender pursuant to which such Person shall assume all of Borrower's obligations under the Loan Documents.

(g) Lender shall have received (i) a "tie-in" or similar endorsement to each Title Insurance Policy insuring the Lien of an existing Mortgage evidencing the substitution of the Substitute Property for the Substituted Property, to the extent such endorsements are available in the related jurisdictions, and (ii) a Title Insurance Policy (or a marked, signed and redated commitment to issue such Title Insurance Policy) insuring the Lien of the Mortgage encumbering the Substitute Property, issued by one or more of the title companies that issued the

Title Insurance Policies insuring the Lien of the existing Mortgages and dated as of the date of the substitution, with reinsurance and direct access agreements that replace such agreements issued in connection with the Title Insurance Policy insuring the Lien of the Mortgage encumbering the Substituted Property. The Title Insurance Policy issued with respect to the Substitute Property shall (A) provide coverage in the amount of the Substitute Allocated Loan Amount if the "tie-in" or similar endorsement described above is available or, if such endorsement is not available, in an amount equal to one hundred twenty-five percent (125%) of the Substitute Allocated Loan Amount, (B) insure Lender that the relevant Mortgage creates a valid first lien on fee estate of the Substitute Property, free and clear of all exceptions from coverage other than Permitted Encumbrances and standard exceptions and exclusions from coverage (as modified by the terms of any endorsements), (C) contain such endorsements and affirmative coverages as are contained in the Title Insurance Policies insuring the Liens of the existing Mortgages, and (D) name Lender as the insured. Lender also shall have received copies of paid receipts or other evidence acceptable to Lender showing that all premiums in respect of such endorsements and Title Insurance Policies have been paid. In no event shall the Mortgage on a Substitute Property be secured, in whole or in part, by an interest in a ground lease in connection with any substitution prior to a Securitization. Subsequent to a Securitization, a Substitute Property affected by a ground lease shall be permitted only if such ground lease satisfies the then-current criteria of the Rating Agencies, as evidenced by written confirmation from the Rating Agencies that such ground lease will not result in the qualification, downgrade or withdrawal of the then current ratings assigned to the Securities, Lender shall have received an estoppel certificate from the ground lessor that satisfies the then-current criteria of the Rating Agencies and Lender shall have received an opinion of Borrower's counsel stating that such ground lease satisfies all applicable ERISA requirements.

(h) Lender shall have received (i) an endorsement to the Title Insurance Policy insuring the Lien of the Mortgage encumbering the Substitute Property insuring that the Substitute Property constitutes a separate tax lot or, if such an endorsement is not available in the state in which the Substitute Property is located, a letter from the title insurance company issuing such Title Insurance Policy stating that the Substitute Policy constitutes a separate tax lot, (ii) a letter from the appropriate taxing authority stating that the Substitute Property constitutes a separate tax lot or (iii) copies of tax assessments from the appropriate taxing authority demonstrating that the Substitute Property constitutes a separate tax lot.

(i) Lender shall have received a current title survey for each Substitute Property, certified to the title company and Lender and their successors and assigns, in the same form and having the same content as the certification of the Survey of the Substituted Property prepared by a professional land surveyor licensed in the state in which the Substitute Property is located and acceptable to the Rating Agencies in accordance with the 1997 Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys. Such survey shall reflect the same legal description contained in the Title Insurance Policy relating to such Substitute Property and shall include, among other things, a metes and bounds description of the real property comprising part of such Substitute Property or other type of real property description (e.g., block and lot) that is customarily used in the jurisdiction in which the Substitute Property is located. The surveyor's seal shall be affixed to each survey and each survey shall certify that the surveyed property is not located in a "one-hundred-year flood hazard area." (or, if it is so located, such property shall be covered by flood insurance meeting the requirements set forth in Section 5.1.1(a)(1) hereof).

(j) Lender shall have received valid certificates of insurance indicating that the requirements for the Policies required for an Individual Property hereunder have been satisfied with respect to the Substitute Property and evidence of the payment of all premiums payable for the existing policy period.

(k) Lender shall have received a Phase I environmental report and, if recommended under the Phase I environmental report, a Phase II environmental report, which conclude that the Substitute Property does not contain any Hazardous Substance (as defined in the Mortgage) and is not subject to any risk of contamination from any off-site Hazardous Substance. If any such report discloses the presence of any Hazardous Substance or the risk of contamination from any off-site Hazardous Substance, a substitution shall not be allowed with respect to such proposed Substitute Property at any time prior to a Securitization. If, subsequent to a Securitization, any such report discloses the presence of any Hazardous Substance or the risk of contamination from any off-site Hazardous Substance, such report shall include an estimate of the cost of any related remediation and Borrower shall deposit with Lender an amount equal to one hundred twenty-five percent (125%) of such estimated cost, which deposit shall constitute additional security for the Loan and shall be released to Borrower upon the delivery to Lender of (i) an update to such report indicating that there is no longer any Hazardous Substance on the Substitute Property or any danger of contamination from any off-site Hazardous Substance that has not been fully remediated and (ii) paid receipts indicating that the costs of all such remediation work have been paid.

(l) Lender shall have received a Physical Conditions Report with respect to the Substitute Property stating that the Substitute Property and its use comply in all material respects with all applicable Legal Requirements (including, without limitation, zoning, subdivision and building laws) and that the Substitute Property is in good condition and repair and free of damage or waste. If compliance with any Legal Requirements are not addressed by the Physical Conditions Report, such compliance shall be confirmed by delivery to Lender of a letter from the municipality in which such Property is located, a certificate of a surveyor that is licensed in the state in which the Substitute Property is located (with respect to zoning and subdivision laws, if offered in the jurisdiction in which the Substitute Property is located), an ALTA 3.1 zoning endorsement to the Title Insurance Policy delivered pursuant to clause above (with respect to zoning laws) or a subdivision endorsement to the Title Insurance Policy delivered pursuant to clause (i) above (with respect to subdivision laws). If the Physical Conditions Report recommends that any immediate repairs be made with respect to the Substitute Property, a substitution shall not be allowed with respect to such proposed Substitute Property at any time prior to a Securitization. If, subsequent to a Securitization, any such Physical Conditions Report recommends that any immediate repairs be made with respect to the Substitute Property, such report shall include an estimate of the cost of such recommended repairs and Borrower shall deposit with Lender an amount equal to one hundred twenty-five percent (125%) of such estimated cost (less the amount of FF&E Funds deposited for such immediate repairs, provided such repairs are included in a capital expenditures program for such Substitute Property), which deposit shall constitute additional security for the Loan and shall be released to Borrower upon the delivery to Lender of (i) an update to such Physical Conditions Report or a letter from the engineer that prepared such Physical Conditions Report indicating that the recommended repairs were completed in good and workmanlike manner and (ii) paid receipts indicating that the costs of all such repairs have been paid.

(m) Borrower shall deliver or cause to be delivered to Lender (i) updates certified by Borrower of all organizational documentation related to Borrower and/or the formation, structure, existence, good standing and/or qualification to do business delivered to Lender in connection with the Closing Date; (ii) good standing certificates, certificates of qualification to do business in the jurisdiction in which the Substitute Property is located (if required in such jurisdiction) and (C) resolutions of the Borrower authorizing the substitution and any actions taken in connection with such substitution.

(n) Lender shall have received the following opinions of Borrower's counsel: (i) an opinion or opinions of counsel admitted to practice under the laws of the state in which the Substitute Property is located stating that the Loan Documents delivered with respect to the Substitute Property pursuant to clause (h) above are valid and enforceable in accordance with their terms, subject to the laws applicable to creditors' rights and equitable principles, and that Borrower is qualified to do business and in good standing under the laws of the jurisdiction where the Substitute Property is located or that Borrower is not required by applicable law to qualify to do business in such jurisdiction; (ii) an opinion of Hogan & Hartson or such other counsel acceptable to the Rating Agencies stating that the Loan Documents delivered with respect to the Substitute Property pursuant to clause (h) above were duly authorized, executed and delivered by Borrower and that the execution and delivery of such Loan Documents and the performance by Borrower of its obligations thereunder will not cause a breach of, or a default under, any agreement, document or instrument to which Borrower is a party or to which it or its properties are bound; (iii) an opinion of counsel acceptable to the Rating Agencies stating that subjecting the Substitute Property to the Lien of the related Mortgage and the execution and delivery of the related Loan Documents does not and will not affect or impair the ability of Lender to enforce its remedies under all of the Loan Documents or to realize the benefits of the cross-collateralization provided for thereunder; (iv) an update of the Insolvency Opinion indicating that the substitution does not affect the opinions set forth therein or, if the Substitute property is owned by a Person that is not a Borrower as of the Closing Date, a replacement Insolvency Opinion; (v) an opinion of counsel acceptable to the Rating Agencies that the substitution does not constitute a "significant modification" of the Loan under Section 1001 of the Code or otherwise cause a tax to be imposed on a "prohibited transaction" by any REMIC Trust and (vi) a nonconsolidation opinion acceptable to the Rating Agencies with respect to any new Hotel Lessee.

(o) Borrower shall have paid or created adequate reserves for payment of all Basic Carrying Costs relating to the Individual Properties and the Substitute Property through the date of substitution, including without limitation, (i) accrued but unpaid insurance premiums relating to the Individual Properties and the Substitute Property, (ii) currently due Taxes (including any in arrears) relating to the Individual Properties and the Substitute Property and (iii) currently due Other Charges relating to the Individual Properties and Substitute Property.

(p) Borrower shall have paid to Lender a substitution fee of $10,000 for each Substituted Property and shall have paid or reimbursed Lender for all costs and expenses incurred by Lender (including, without limitation, reasonable attorneys fees and disbursements) in connection with the substitution and Borrower shall have paid all recording charges, filing fees, taxes or other expenses (including, without limitation, mortgage and intangibles taxes and documentary stamp taxes) payable in connection with the substitution. Borrower shall have paid all costs and expenses of the Rating Agencies incurred in connection with the substitution.

(q) Lender shall have received annual operating statements and occupancy statements for the Substitute Property for the for the three (3) years immediately prior to the date of substitution (or such lesser time as the Substitute Property has had operations), and audited financial statements for the most current completed Fiscal Year and a current operating statement for the Substituted Property, each certified to Lender as being true and correct and a certificate from Borrower certifying that there has been no material adverse change in the financial condition of the Substitute Property since the date of such operating statements.

(r) Borrower shall have delivered to Lender estoppel certificates in a form reasonably acceptable to Lender from any Hotel Lessee or other tenants under Major Leases at the Substitute Property to which Borrower will be a party. If an estoppel certificate indicates that all tenant improvement work required under the subject lease has not yet been completed, Borrower shall, if required by the Rating Agencies, deliver to Lender financial statements indicating that Borrower has adequate funds to pay all costs related to such tenant improvement work as required under such lease.

(s) Lender shall have received copies of all Major Leases and Material Agreements relating to the leasing and operation of the Substitute Property to which Borrower will be a party together with a certification of Borrower attached to each such Major Lease and Material Agreements certifying that the attached copy is a true and correct copy of such Major Lease and Material Agreement and all amendments thereto.

(t) Lender shall have received a subordination, nondisturbance and attornment agreements with respect to each Lease affecting the Substitute Property other than any Lease that is, by its terms, subordinate to the Mortgage with respect to the Substitute Property and, if the law of the State where the Substitute Property is located allows the tenant under the Lease in question to treat such Lease as terminated in the event of sale by foreclosure or power of sale, provides for attornment to a subsequent owner in the case of sale by foreclosure or power of sale.

(u) Lender shall have received a certified copy of the Management Agreement for the Substitute Property and the Manager shall have executed and delivered to Lender an assignment of such Management Agreement. Each new Manager and Hotel Lessee shall execute and deliver to Lender a Deposit Account Agreement and such other documents as may be required in order to confirm such Manager’s and Hotel Lessee’s compliance with the cash management procedures set forth in the Loan Documents. Each new Manager, Management Agreement, Hotel Lessee and Hotel Lease shall be subject to written confirmation from the Rating Agencies that such Manager, Management Agreement, Hotel Lessee or Hotel Lease will not result in the qualification, downgrade or withdrawal of the then current ratings assigned to the Securities.

(v) Lender shall have received such other and further approvals, opinions, documents and information in connection with the substitution as the Rating Agencies may have requested.

(w) Upon satisfaction of the foregoing, but not less than thirty (30) days prior to the date of such substitution, Borrower shall submit to Lender a release of Lien (and related Loan Documents) for the Substituted Property for execution by Lender. Such release shall be in a form appropriate for the jurisdiction in which the Substituted Property is located and satisfactory to Lender in its sole discretion. Borrower shall deliver an Officer's Certificate certifying that the requirements set forth in this Section 2.7 have been satisfied.

2.7.2 **Release and Substitution**. Upon the satisfaction of the foregoing conditions precedent, Lender will release its Lien from the Substituted Property to be released and the Substitute Property shall be deemed to be an Individual Property for purposes of this Agreement and the Substitute Allocated Loan Amount with respect to such Substitute Property shall be deemed to be the Allocated Loan Amount with respect to such Substitute Property for all purposes hereunder. If the Individual Borrower that is the owner of the Substituted Property does not own any other Individual Properties after such substitution, such Individual Borrower shall be released from its obligations under the Note and the other Loan Documents (except with respect to obligations that specifically survive repayment of the Debt) upon the assumption of its obligations by the owner of the Substitute Property.

Section 2.8 Second Mortgages.

Simultaneously with the Closing of the Loan, Borrower has delivered to Lender second mortgages on the Marriott Marquis and the Drake Swissôtel in an amount equal to twenty-five percent (25%) of the Allocated Loan Amount for such Individual Properties (together, the "**Second Mortgages**"). In the event that the Base Profit declines by more than $20,000,000 (as reduced by the product of (1) the Allocated Percentage with respect to any Individual Property that has been the subject of a Partial Defeasance or the reduction in the Allocated Percentage with respect to any Individual Property that has had its Allocated Loan Amount reduced due to the application of Net Proceeds and (2) $20,000,000) below the 1998 Base Profit (as reduced by the product of (1) the Allocated Percentage with respect to any Individual Property that has been the subject of a Partial Defeasance or the reduction in the Allocated Percentage with respect to any Individual Property that has had its Allocated Loan Amount reduced due to the application of Net Proceeds and (2) the 1998 Base Profit), Lender shall have the right to record the Second Mortgages. Within fifteen (15) days after notice from Lender to Borrower that the Second Mortgages will be recorded, Borrower shall deliver to Lender amounts sufficient to pay all recording taxes and other fees necessary to record the Second Mortgages, together with such other items as may be reasonably requested by Lender in connection therewith. Borrower shall also deliver, at Borrower's expense, a title insurance policy insuring the Lien of each of the Second Mortgages, with coverage in the amount of Second Mortgages and insuring Lender that each of the Second Mortgages creates a valid second lien on the related Individual Property, subject only to the Permitted Encumbrances. In the event that Borrower fails to pay all taxes, fees, title insurance premiums and other expenses with respect to the Second Mortgages pursuant to the provisions of this Section 2.8, all excess cash flow will be deposited into the Second Mortgage Account (as defined in the Cash Management

Agreement) until such time as a sufficient amount has been deposited in the Second Mortgage Account for the payment of such expenses. Lender shall have the right, but not the obligation, to apply funds on deposit in the Second Mortgage Account to the payment of any expense payable by Borrower pursuant to this Section 2.8. Provided no Event of Default shall have occurred and be continuing, Lender shall, at the direction of Borrower, apply funds on deposit in the Cash Management Agreement that would otherwise be payable to Borrower to the payment of any expense payable by Borrower pursuant to this Section 2.8.

III. REPRESENTATIONS AND WARRANTIES

Section 3.1 Borrower Representations.

Borrower represents and warrants that:

3.1.1 **Organization**. Each Individual Borrower is duly organized, validly existing and in good standing in its jurisdiction of organization with full power and authority to own its assets and conduct its business as presently conducted, is duly qualified in all jurisdictions in which the ownership or lease of its property or the conduct of its business requires such qualification, except where the failure to be so qualified would not have a material adverse effect on Borrower’s ability to perform its obligations hereunder. Each Individual Borrower has taken all necessary action to authorize the execution, delivery and performance of this Agreement by it, and has the power and authority to execute, deliver and perform under this Agreement and all the transactions contemplated hereby.

3.1.2 **Proceedings**. This Agreement and the other Loan Documents have been duly authorized, executed and delivered by each Individual Borrower and constitute a legal, valid and binding obligation of such Individual Borrower, enforceable against such Individual Borrower in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors’ rights generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.1.3 **No Conflicts**. The execution and delivery of this Agreement and the other Loan Documents by Borrower and the performance of its obligations hereunder and thereunder will not conflict with any provision of any law or regulation to which any Individual Borrower is subject, or conflict with, result in a breach of, or constitute a default under, any of the terms, conditions or provisions of any of any Individual Borrower’s organizational documents or any Material Agreement or other agreement or instrument to which any Individual Borrower is a party or by which it is bound, or any order or decree applicable to any Individual Borrower, or result in the creation or imposition of any lien on any of any Individual Borrower’s assets or property (other than the Individual Properties), in each case which would materially and adversely affect the ability of any Individual Borrower to carry out the transactions contemplated by this Agreement.

3.1.4 **Litigation**. There is no action, suit, proceeding or investigation pending or, to the best of Borrower’s knowledge, threatened against or affecting any Individual Borrower or any Individual Property in any court or by or before any other Governmental Authority which would materially and adversely affect the ability of any Individual Borrower to carry out the transactions contemplated by this Agreement.

3.1.5 Agreements. No Individual Borrower is in default with respect to any Material Agreement or any order or decree of any court or any order, regulation or demand of any Governmental Authority, which default might have consequences that would materially and adversely affect the condition (financial or other) or operations of Borrower or its properties or might have consequences that would materially and adversely affect its performance hereunder.

3.1.6 Consents. No consent, approval, authorization or order of any Governmental Authority is required for the execution, delivery and performance by any Individual Borrower of, or compliance by Borrower with, this Agreement or the consummation of the transactions contemplated hereby, other than those which have been obtained by such Individual Borrower.

3.1.7 Title. Each Individual Borrower has good, marketable and insurable title in fee simple to the real property comprising part of the Individual Properties owned by it (except with respect to the Marquis Borrower, which has good, marketable and insurable title to the leasehold estate created by the Ground Lease) and good title to the balance of such Individual Properties, free and clear of all Liens whatsoever except the Permitted Encumbrances. Each Mortgage, when properly recorded in the appropriate records, together with any Uniform Commercial Code financing statements required to be filed in connection therewith, will create (i) a valid, first priority, perfected lien on all of such Individual Borrower's right, title and interest in and to the applicable Individual Property, subject only to Permitted Encumbrances and (ii) perfected security interests in and to, and perfected collateral assignments of, all of such Individual Borrower's right, title and interest in and to personalty (including the applicable Hotel Lease), all in accordance with the terms thereof, in each case subject only to any applicable Permitted Encumbrances. There are no mechanics', materialman's or other similar liens or claims which have been filed for work, labor or materials affecting any Individual Property which are or may be liens prior to, or equal or coordinate with, the lien of the related Mortgage, unless such lien is insured against under the related title insurance policy or is a Permitted Encumbrance. The Permitted Encumbrances do not and will not materially and adversely affect (a) the ability of Borrower to pay the Loan or (b) the use or operation of any Individual Property or the value thereof.

3.1.8 No Plan Assets. Borrower is not an "employee benefit plan," as defined in Section 3(3) of ERISA, subject to Title I of ERISA, and none of the assets of Borrower constitutes or will constitute "plan assets" of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101. In addition, (i) Borrower is not a "governmental plan" within the meaning of Section 3(32) of ERISA and (ii) transactions by or with Borrower are not subject to state statutes regulating investment of, and fiduciary obligations with respect to, governmental plans.

3.1.9 Compliance. To the best of Borrower's knowledge, Borrower and each of the Individual Properties and the use thereof comply in all material respects with all applicable Legal Requirements, including, without limitation, building and zoning ordinances and codes. Borrower is not in default or violation of any order, writ, injunction, decree or demand of any

Governmental Authority, the violation of which would reasonably be expected to materially and adversely affect the condition (financial or otherwise) or business of Borrower. Borrower has not received notice that it has, and to the best of its knowledge has not, committed any act which would reasonably be expected to give any Governmental Authority the right to cause Borrower to forfeit any of the Individual Properties or any part thereof or any monies paid in performance of Borrower's obligations under any of the Loan Documents.

3.1.10 **Financial Information**. All historical financial data, including, without limitation, the statements of cash flow and income and operating expense, that have been prepared by Borrower, Host or any other Affiliate of Borrower and delivered to Lender in respect of the Individual Properties (i) are true, complete and correct in all material respects, (ii) accurately represent the financial condition of the Individual Properties as of the date of such reports, and (iii) with respect to annual financial statements, have been prepared in accordance with GAAP throughout the periods covered. To the best of Borrower's knowledge, all historical financial data, including, without limitation, the statements of cash flow and income and operating expense, that have been prepared by any other Person and delivered to Lender by Borrower in respect of the Individual Properties (i) are true, complete and correct in all material respects, (ii) accurately represent the financial condition of the Individual Properties as of the date of such reports, and (iii) with respect to annual financial statements, have been prepared in accordance with GAAP throughout the periods covered. Except as referred to or reflected in said financial data, Borrower does not have any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments in each case that are material and known to Borrower.

3.1.11 **Condemnation**. No Condemnation or other proceeding has been commenced or, to Borrower's best knowledge, is contemplated with respect to all or any portion of any of the Individual Properties or for the relocation of roadways providing access to any of the Individual Properties.

3.1.12 **Utilities and Public Access**. Each of the Individual Properties has rights of access to public ways and is served by water, sewer, sanitary sewer and storm drain facilities adequate to service such Individual Property for its respective intended uses.

3.1.13 **Separate Lots**. Each Individual Property is comprised of one (1) or more parcels which constitutes a separate tax lot and does not constitute a portion of any other tax lot not a part of such Individual Property.

3.1.14 **Assessments**. There are no pending or, to the best of Borrower's knowledge, proposed special or other assessments for public improvements or otherwise affecting any of the Individual Properties, nor are there, to the best of Borrower's knowledge, any contemplated improvements to any of the Individual Properties that may result in such special or other assessments.

3.1.15 **Enforceability**. The Loan Documents are not subject to any right of rescission, set-off, counterclaim or defense by Borrower, including the defense of usury, nor would the operation of any of the terms of the Loan Documents, or the exercise of any right thereunder, render the Loan Documents unenforceable, and Borrower has not asserted any right of rescission, set-off, counterclaim or defense with respect thereto.

3.1.16 __Assignment of Leases__. Each Assignment of Leases creates a valid assignment of, or a valid security interest in, the rights of the applicable Individual Borrower under the related Leases, if any, and Hotel Leases, subject only to a license granted to Borrower to exercise certain rights and to perform certain obligations of the lessor thereunder, including the right to operate the related Individual Property. No Person other than Lender has any interest in or assignment of Borrower's interest in the Leases or Hotel Leases or any portion of Borrower's interest in the Rents or the Hotel Lease Rents.

3.1.17 __Insurance__. Each building or other improvement located on each Individual Property is insured in accordance with the requirements of this Agreement; all premiums on such insurance policies required to be paid as of the date hereof have been paid; such insurance policies require prior notice to the insured of termination or cancellation, and no such notice has been received. Neither Borrower nor, to the best of Borrower's knowledge, any other Person, has done, by act or omission, anything which would impair the coverage of any such policy.

3.1.18 __Licenses__. All material certifications, permits, licenses and approvals, including without limitation, liquor licenses and certificates of occupancy required by any Governmental Authority for the use, occupancy and operation of each of the Individual Properties in the manner in which such Individual Property is currently being used, occupied and operated have been obtained and are in full force and effect. Each Individual Property has a certificate of occupancy or other local equivalent (where required by applicable Legal Requirements) and the use being made of each Individual Property is in material conformity with such certificate of occupancy

3.1.19 __Flood Zone__. Except as shown on the Surveys, none of the Improvements on any of the Individual Properties are located in an area identified by the Federal Emergency Management Agency as a special flood hazard area and, to the extent that any part of any Individual Property is located in an area identified by the Federal Emergency Management Agency as an area federally designated a "100 year flood plain," such Individual Property is covered by flood insurance meeting the requirements set forth in Section 5.1.1(a)(1) hereof.

3.1.20 __Physical Condition__. To the best of Borrower's knowledge, each of the Individual Properties, including, without limitation, all buildings, improvements, parking facilities, sidewalks, storm drainage systems, roofs, plumbing systems, HVAC systems, fire protection systems, electrical systems, equipment, elevators, exterior sidings and doors, landscaping, irrigation systems and all structural components, are in good condition, order and repair in all material respects; there exists no material structural or other defects or damages in any of the Individual Properties, whether latent or otherwise, and Borrower has not received notice from any insurance company or bonding company of any defects or inadequacies in any of the Individual Properties, or any part thereof, which would adversely affect the insurability of the same or cause the imposition of extraordinary premiums or charges thereon or of any termination or threatened termination of any policy of insurance or bond.

3.1.21 Boundaries. All of the improvements which were included in determining the appraised value of each Individual Property lie wholly within the boundaries and building restriction lines of such Individual Property, and no improvements on adjoining properties encroach upon such Individual Property, and no easements or other encumbrances affecting the applicable Individual Property encroach upon any of the improvements, so as to affect the value or marketability of the applicable Individual Property except those which are insured against by title insurance.

3.1.22 Leases. Borrower is not a party to any Leases other than the Marquis Lease and Leases that have been assigned by Borrower to the Hotel Lessees. No brokerage or leasing commission or other compensation is or will be due or payable by Borrower to any Person with respect to or on account of any of the Leases.

3.1.23 Taxes. All transfer taxes, deed stamps, intangible taxes or other amounts in the nature of transfer taxes required to be paid under applicable Legal Requirements in connection with the transfer of the Individual Properties to Borrower have been paid. All mortgage, mortgage recording, stamp, intangible or other similar tax required to be paid under applicable Legal Requirements in connection with the execution, delivery, recordation, filing, registration, perfection or enforcement of any of the Loan Documents, including, without limitation, the Mortgages, have been paid or will be paid by Borrower upon recordation of the Mortgages. All taxes and governmental assessments due and owing by Borrower in respect of each Individual Property have been paid, or an escrow of funds in an amount sufficient to cover such payments has been established hereunder or are insured against by the title insurance policy to be issued in connection with the Mortgages.

3.1.24 Single Purpose. Borrower hereby represents and warrants to, and covenants with, Lender that as of the date hereof and until such time as the Debt shall be paid in full:

(a) Each Individual Borrower shall maintain its books and records and bank accounts separate from any other Person (except that, for accounting and reporting purposes, an Individual Borrower may be included in the consolidated financial statements of any equity owner of such Individual Borrower in accordance with GAAP).

(b) Each Individual Borrower shall maintain an arm’s length relationship with Affiliates and any other party furnishing services to it.

(c) Each Individual Borrower shall maintain its books, records, resolutions and agreements as official records.

(d) Each Individual Borrower shall conduct its business in its own name and through its own authorized officers and agents.

(e) Each Individual Borrower shall prepare and maintain its financial statements, accounting records and other entity documents separate from those of any other Person (except for inclusion in consolidated financial statements of an equity owner, as described in clause (a) above).

(f) Except as contemplated under the Management Agreements and the Loan Documents and under the provision of clause (h) below, each Individual Borrower shall pay its own liabilities, out of its own funds and other assets to the extent available.

(g) Each Individual Borrower shall observe all limited liability company formalities necessary to maintain its identity as an entity separate and distinct from any member and all of its other Affiliates.

(h) Each Individual Borrower shall participate in the fair and reasonable allocation, and pay its share, of any and all overhead expenses and other common expenses for facilities, goods or services provided to multiple entities.

(i) Each Individual Borrower shall use its own stationery, invoices and checks (except when acting in a representative capacity, in which event such capacity shall be disclosed).

(j) Each Individual Borrower shall hold and identify itself as a separate and distinct entity under its own name and not as a division or part of any other Person (except for inclusion in consolidated financial statements of an equity owner, as described in clause (a) above).

(k) Except as may otherwise be contemplated by the Management Agreements, the Hotel Leases and the Loan Documents, each Individual Borrower shall deposit all of its funds in checking accounts, savings accounts, time deposits or certificates of deposit in its own name or invest such funds in its own name.

(l) Each Individual Borrower shall hold its assets in its own name, except as contemplated under the Management Agreements, the Hotel Leases and the Loan Documents.

(m) Each Individual Borrower shall maintain a sufficient number of employees (which may be zero) for its contemplated business and pay the salaries of such employees from its own funds.

(n) Each Individual Borrower shall maintain adequate capital for the conduct of its business.

(o) No Individual Borrower shall seek or consent to any dissolution, winding up, liquidation, consolidation, merger or sale of all or substantially all of its assets.

(p) No Individual Borrower shall fail to correct any known misunderstanding regarding its separate identity.

(q) Except as otherwise contemplated under the Management Agreements and the Loan Documents, no Individual Borrower shall commingle its funds or other assets with those of any other Person.

(r) No Individual Borrower shall assume or guarantee or become obligated for the debts of any other Person or hold out its credit as being available to satisfy the obligations of any other Person except as otherwise contemplated or permitted under the Loan Documents (provided that this provision shall not be deemed to prohibit customary joint and several obligations and indemnification and contribution agreements entered into under its organizational documents, the Hotel Leases or the Management Agreements or commercially reasonable indemnification obligations incurred in the ordinary course of business of such Individual Borrower).

(s) No Individual Borrower shall acquire obligations or securities of its members (other than any note of a member held by such Individual Borrower to provide adequate capital for operation of its business).

(t) No Individual Borrower shall pledge any of its assets for the benefit of any other Person (except for purchase money security interests or as otherwise permitted by the Loan Documents).

(u) No Individual Borrower shall make any loans to any other Person, or buy or hold evidence of indebtedness issued by any other Person (except as provided in the Hotel Leases and except for Permitted Investments).

(v) No Individual Borrower shall identify any of its members, partners or shareholders or any of its Affiliates as a division or part of it (except for inclusion in consolidated financial statements of an equity owner).

(w) No Individual Borrower shall engage (either as transferor or transferee) in any material transaction with any Affiliate other than for fair value and on terms similar to those obtainable in arms-length transactions with unaffiliated parties, or engage in any transaction with any Affiliate involving any intent to hinder, delay or defraud any entity.

(x) No Individual Borrower shall engage in any business activity or operate for any purpose other than the ownership, management and operation of the related Individual Properties owned by it.

(y) No Individual Borrower has incurred any Indebtedness outstanding on the date hereof, nor will any Individual Borrower hereafter incur any Indebtedness, in each case, secured or unsecured, direct or indirect, absolute or contingent (including guaranteeing any obligation) other than (i) the Debt, (ii) unsecured trade payables not more than sixty (60) days past due incurred in the ordinary course of business in an amount not exceeding Fifteen Million and No/100 Dollars ($15,000,000) with respect to all Individual Borrowers at any one time, (iii) debt incurred in connection with capital lease obligations and purchase money financing with respect to equipment and other personal property used on the Individual Properties, which debt (A) is not secured by a lien or security interest in the Individual Properties (other than the personal property so financed) and (B) is in an amount not exceeding Twelve Million and No/100 Dollars ($12,000,000) with respect to all Individual Borrowers at any one time and (iv) reimbursement obligations in connection with appeal, surety and performance bonds in the ordinary course of business; provided that the Indebtedness referred to in clauses (ii), (iii) and (iv) shall not exceed, with respect to each Individual Property, five percent (5%) of the initial Allocated Loan Amount for such Individual Property at any one time (the Indebtedness referred to in clauses (i), (ii), (iii) and (iv), the “**Permitted Indebtedness**”). No Indebtedness other than the Debt may be secured (subordinate or pari passu) by the Individual Properties.

(z) Each Individual Borrower is and will remain solvent and each Individual Borrower will pay its debts and liabilities (including, as applicable, shared personnel and overhead expenses of which each Individual Borrower will pay its allocated share) from its assets as the same shall become due.

(aa) Each Individual Borrower has done or caused to be done and will do all things necessary to observe organizational formalities and preserve its existence, and no Individual Borrower will, nor will any Individual Borrower permit any constituent party to amend, modify or otherwise change the partnership certificate, partnership agreement, articles of incorporation and bylaws, operating agreement, trust or other organizational documents of such Individual Borrower or such constituent party in such a way as to adversely affect such Individual Borrower's status as a single-purpose entity without the consent of Lender.

(bb) Each Individual Borrower shall have at least two members, one of which shall be a corporation (each, an "**SPC Party**") that is a manager of such Individual Borrower, which SPC Party shall not be required to have an economic interest in the related Individual Borrower. Each SPC Party will at all times comply, and will cause Borrower to comply, with each of the representations, warranties, and covenants contained in this Section 3.1.24 as if such representation, warranty or covenant was made directly by SPC Party.

(cc) Borrower shall at all times cause there to be at least two duly appointed members of the board of directors (each, an "**Independent Director**") of each SPC Party reasonably satisfactory to Lender who shall not have been at the time of such individual's appointment, will not while serving and may not have been at any time during the preceding five years (i) a stockholder, director (with the exception of serving as an Independent Director of such SPC Party; provided, further, that a Person shall not be disqualified from being an Independent Director solely by reason of such Person serving as an independent director or manager of another single purpose entity that would otherwise be deemed to be an Affiliate because they are under common control), officer, employee, partner, attorney or counsel of such corporation, Borrower or any Affiliate of either of them, (ii) a customer, supplier or other Person who derives any of its purchases or revenues from its activities with such corporation, Borrower or any Affiliate of either of them, (iii) a Person or other entity controlling or under common control with any such stockholder, partner, customer, supplier or other Person, or (iv) a member of the immediate family of any such stockholder, director, officer, employee, partner, customer, supplier or other Person. As used in this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management, policies or activities of a Person, whether through ownership of voting securities, by contract or otherwise.

(dd) No Individual Borrower shall cause or permit the board of directors any SPC Party to take any action which, under the terms of any certificate of incorporation, by-laws or any voting trust agreement with respect to any common stock, requires a unanimous vote of the board of directors of the SPC Party unless at the time of such action there shall be at least two members who are Independent Directors.

(ee) Each Individual Borrower shall conduct its business so that the assumptions made with respect to such Individual Borrower in the Insolvency Opinion shall be true and correct in all material respects.

(ff) No Individual Borrower shall have or create any subsidiaries or hold any equity interest in any other Person (except for Permitted Investments).

(gg) No Individual Borrower shall fail to file separate federal or state income tax returns, if required by applicable law.

3.1.25 **Ground Lease**. Borrower hereby represents and warrants to Lender the following:

(a) The Ground Lease or a memorandum thereof has been duly recorded, the Ground Lease permits the interest of the lessee thereunder to be encumbered by the related Mortgage, does not restrict the use of the Marriott Marquis by the lessee or its successors and assigns in a manner that would adversely affect the security provided by the related Mortgage, and there has not been a material change in the terms of the Ground Lease since its recordation, with the exception of written instruments which are part of the related Mortgage Loan documents delivered to Lender.

(b) The Ground Lease is not subject to any liens or encumbrances superior to, or of equal priority with, the related Mortgage, other than Permitted Encumbrances and the Ground Lessor's fee interest.

(c) The related Individual Borrower's interest in the Ground Lease is assignable to the holder of the Mortgage upon notice to, but without the consent of, the Ground Lessor and, in the event that it is so assigned, it is further assignable by Lender and its successors and assigns upon notice to, but without a need to obtain the consent of, such lessor.

(d) The Ground Lease is in full force and effect and no material default has occurred under the Ground Lease and there is no existing condition which, but for the passage of time or the giving of notice, or both, would result in a default under the terms of the Ground Lease. No notice of default under the Ground Lease has been received by Borrower.

(e) The Ground Lease requires the lessor thereunder to give notice of any default by the lessee to any mortgagee and the Ground Lease further provides that notice of termination given under the Ground Lease is not effective against any mortgagee unless a copy of the notice has been delivered to such mortgagee in the manner described in the Ground Lease.

(f) Lender is permitted a reasonable opportunity (including, where necessary, sufficient time to gain possession of the interest of the lessee under the Ground Lease) to cure any default under the Ground Lease which is curable after the receipt of notice of any default, before the Ground Lessor may terminate the Ground Lease.

(g) The Ground Lease requires the Ground Lessor to enter into a new lease with Lender upon termination of the Ground Lease for any reason, including rejection of the Ground Lease in a bankruptcy proceeding.

(h) Under the terms of the Ground Lease and the Loan Documents, taken together, any related insurance and condemnation proceeds will be applied either to the repair or restoration of all or part of the Marriott Marquis, with Lender having the right to hold and disburse the proceeds as the repair or restoration progresses, or to the payment of the outstanding principal balance of the Loan together with any accrued interest thereon.

(i) The Ground Lease does not impose any material restrictions on subletting.

(j) Either the Ground Lease or an estoppel letter contains a covenant that the lessor thereunder is not permitted in the absence of an uncured default under the Ground Lease, to disturb the possession, interest or quiet enjoyment of the related Individual Borrower in the Marriott Marquis for any reason, or in any manner, which would materially adversely affect the security provided by the related Mortgage.

(k) Borrower shall either exercise the Purchase Option pursuant to terms of the Ground Lease no later than January 1, 2017 or obtain an amendment to the Ground Lease in form and substance satisfactory to Lender extending the term thereof to a date that is at least ten (10) years after the Maturity Date.

3.1.26 **No Bankruptcy Filing**. No Individual Borrower is contemplating either the filing of a petition by it under any state or federal bankruptcy or insolvency laws or the liquidation of its assets or property, nor does any Individual Borrower have any knowledge of any Person contemplating the filing of any such petition against it.

3.1.27 **Full and Accurate Disclosure**. To the best of Borrower's knowledge, no information contained in this Agreement, the other Loan Documents, or any written statement furnished by or on behalf of Borrower pursuant to the terms of this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. There is no fact or circumstance presently known to Borrower which has not been disclosed to Lender and which materially adversely affects, or is reasonably likely to materially adversely affect, any Individual Property, any Individual Borrower or their respective business, operations or condition (financial or otherwise).

3.1.28 **Federal Reserve Regulations**. No part of the proceeds of the Loan will be used for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose which would be inconsistent with such Regulation U or any other Regulations of such Board of Governors, or for any purposes prohibited by Legal Requirements or by the terms and conditions of this Agreement or the other Loan Documents.

3.1.29 **Foreign Person**. Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code.

3.1.30 **Fraudulent Transfer** Borrower (a) has not entered into the Loan or any Loan Document with the actual intent to hinder, delay, or defraud any creditor and (b) has received reasonably equivalent value in exchange for its obligations under the Loan Documents. The assets of each Individual Borrower do not and, immediately following the execution and delivery of the Loan Documents will not, constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such debts as they mature (taking into account the timing and amounts reasonably expected to be payable on or in respect of its obligations).

3.1.31 Investment Company Act. No Individual Borrower is (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

3.1.32 No Change in Facts or Circumstances; Disclosure. To the best of Borrower's knowledge, there has been no material adverse change in any condition, fact, circumstance or event that would make the financial statements, rent rolls, reports, certificates or other documents submitted in connection with the Loan inaccurate, incomplete or otherwise misleading in any material respect or that otherwise materially and adversely affects the business operations or the financial condition of any Individual Borrower or any Individual Property.

3.1.33 Hotel Leases and Management Agreements. All of the representations and warranties with respect to the Hotel Leases and Management Agreements set forth in Article VII of this Agreement are true and correct in all respects.

Section 3.2 Survival of Representations.

The representations and warranties set forth in Section 3.1 shall survive for so long as any amount remains payable to Lender under this Agreement or any of the other Loan Documents, it being understood, however, that such representations and warranties have been made only as of the Closing Date and the Subsequent Funding Date.

IV. BORROWER COVENANTS

Section 4.1 Borrower Affirmative Covenants.

Borrower hereby covenants and agrees with Lender that:

4.1.1 Existence; Compliance with Legal Requirements. Borrower shall do or cause to be done all things necessary to preserve, renew and keep in full force and effect its existence, rights, licenses, permits and franchises and comply, in all material respects, with all Legal Requirements applicable to it and its ownership of the Individual Properties.

4.1.2 Taxes, Other Charges and Ground Rent. Borrower shall pay all Taxes and Other Charges now or hereafter levied or assessed or imposed against the Individual Properties or any part thereof as the same become due and payable; provided, however, Borrower's obligation to directly pay Taxes shall be suspended for so long as Borrower complies with the terms and provisions of Section 6.2 hereof and is escrowing for Taxes and has not delivered a Letter of Credit in lieu of such escrows pursuant to Section 6.9 hereof. Borrower shall furnish to Lender receipts for the payment of the Taxes and the Other Charges prior to the date the same shall become delinquent; provided, however, that Borrower is not required to furnish such receipts for payment of Taxes in the event that such Taxes are to be paid by Lender pursuant to Section 6.2 hereof. Except as hereinafter provided, Borrower shall not permit or suffer and shall promptly discharge any lien or charge against the Individual Properties arising from such failure to pay Taxes and Other Charges. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, after prior notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, conducted in good faith and with due diligence, the amount or validity of any Taxes, Other Charges or Ground Rent, provided that (i) such proceeding shall be permitted under and be conducted in accordance with all applicable statutes, laws and ordinances and, with respect to Ground Rent, such proceeding shall be permitted under and be conducted in accordance with the Ground Lease; (ii) no Individual Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated (including, without limitation, a termination of the Ground Lease), canceled or lost; (iii) Borrower shall promptly upon final determination thereof pay the amount of any such Taxes, Other Charges or Ground Rent, together with all costs, interest and penalties which may be payable in connection therewith; (iv) such proceeding shall suspend the collection of Taxes, Other Charges or Ground Rent from the applicable Individual Property; and (v) Borrower shall deposit with Lender cash, or other security as may be approved by Lender, in an amount equal to 125% of the contested amount (less any amounts then on deposit pursuant to Section 6.2.1 for the payment of such Taxes, Other Charges or Ground Rent with respect to such Individual Property), to insure the payment of any such Taxes, Other Charges or Ground Rent, together with all interest and penalties thereon. Upon the occurrence of an Event of Default, Lender may pay over any such cash or other security held by Lender to the claimant entitled thereto at any time when, in the judgment of Lender, the entitlement of such claimant is established.

4.1.3 **Litigation**. Borrower shall give prompt written notice to Lender of any litigation or governmental proceedings pending or, to the best of Borrower's knowledge, threatened against Borrower or against any Individual Property which would reasonably be expected to materially adversely affect any of the Individual Properties or Borrower's ability to perform its obligations hereunder or under the other Loan Documents.

4.1.4 **Access to Properties**. Borrower shall permit agents, representatives and employees of Lender to inspect the Individual Properties or any part thereof at reasonable hours upon reasonable advance notice, subject to the provisions of the Hotel Leases and Management Agreements.

4.1.5 **Further Assurances; Supplemental Mortgage Affidavits**. Borrower shall, at Borrower's sole cost and expense:

(a) execute and deliver to Lender such documents, instruments, certificates, assignments and other writings, and do such other acts necessary or desirable, to evidence, preserve and/or protect the collateral at any time securing or intended to secure the obligations of Borrower under the Loan Documents, as Lender may reasonably require; and

(b) do and execute all and such further lawful and reasonable acts, conveyances and assurances for the better and more effective carrying out of the intents and purposes of this Agreement and the other Loan Documents, as Lender shall reasonably require from time to time.

4.1.6 Financial Reporting.

(a) Borrower shall keep and maintain or will cause to be kept and maintained proper and accurate books and records reflecting the financial affairs of Borrower. Lender shall have the right from time to time during normal business hours upon reasonable notice to Borrower to examine such books and records at the office of Borrower or other Person maintaining such books and records and to make such copies or extracts thereof as Lender shall desire. After the occurrence of an Event of Default, Borrower shall pay all costs and expenses incurred by Lender to examine an Individual Borrower's books and records.

(b) Borrower shall furnish to Lender or Servicer, on a quarterly and annual basis, financial statements (including accompanying footnotes) on a combined basis as well as for each Individual Borrower and each Individual Property, in accordance with GAAP (subject to year-end adjustments in the case of quarterly financial statements), consisting of a balance sheet, statement of income and expenses and statement of cash flow through the end of such period. Such statements shall include a calculation of the Debt Service Coverage Ratio and Base Profit. Together with the quarterly financial statements, Borrower shall furnish to Lender an Officer's Certificate certifying as of the date thereof whether to the best of Borrower's knowledge there exists an event or circumstance which constitutes a Default or Event of Default by Borrower under the Loan Documents and if such Default or Event of Default exists, the nature thereof, the period of time it has existed and the action then being taken to remedy the same. The annual financial statements shall be audited by a "Big Five" accounting firm. The quarterly financial statements need not be audited.

(i) In the event the Loan or any portion thereof is included in a Securitization in which one or more classes of Securities are offered in a transaction registered with the Securities and Exchange Commission (a "**Public Offering**") such financial statements shall be provided not later than forty (40) and eighty-five (85) days, respectively, following the end of such periods for the 1999 and 2000 Fiscal Years and not later than seventy-five (75) and one hundred twenty (120) days, respectively, following the end of such periods thereafter. The annual financial statements for the 1999 and 2000 Fiscal Years shall be accompanied by consent of the accountants to the use of their report and such financial statements in the reports filed with the Securities and Exchange Commission in connection with the Securitization.

(ii) In the event the entire Loan is included in a Securitization which does not constitute a Public Offering, then such quarterly and annual reports shall be provided not later than seventy-five (75) and one hundred twenty (120) days, respectively, following the end of each fiscal quarter or year for the 1999 and 2000 Fiscal Years, as well as for periods thereafter.

(c) Borrower shall also provide property operating statements/rent letters, occupancy and room rate reports, market segment reports and capital expenditure/FF&E reports for each Individual Property, as well as any other information that Lender may reasonably require, within thirty-five (35) days after the end of each fiscal quarter. Borrower shall also provide the foregoing information (except with respect to market segment reports) on a combined basis for all Individual Properties. The information provided pursuant to this Section 4.1.6(c) shall be in the form of the "Format 90 Report" attached hereto as Schedule VI.

(d) Borrower shall submit each Annual Budget to Lender upon receipt thereof from the applicable Manager or Hotel Lessee, and shall use its best reasonable efforts to obtain and deliver to Lender all Annual Budgets not later than sixty (60) days prior to the commencement of each Fiscal Year. Lender shall have the right to exercise Borrower's approval rights, if any, with respect to each Annual Budget covering any period of time after the Effective Maturity Date or after the occurrence of an Event of Default. (Annual Budgets approved by Lender shall hereinafter be referred to as an "**Approved Annual Budget**".) In the event that, after the Effective Maturity Date or after the occurrence of an Event of Default, Borrower proposes to incur an extraordinary operating expense or extraordinary capital expenditure (other than an emergency repair) not set forth in the Annual Budget that exceeds Seven Hundred Fifty Thousand and No/100 Dollars ($750,000) (each an "**Extraordinary Expense**"), then Borrower shall promptly deliver to Lender a reasonably detailed explanation of such proposed Extraordinary Expense for Lender's approval. In the event that Lender fails to respond to such request for a proposed Extraordinary Expense within five (5) Business Days of Borrower's request, Borrower may deliver a second request for such approval and, provided that such second request contains a bold faced, conspicuous legend at the top of the first page thereof to the effect that "**IF YOU FAIL TO RESPOND TO THIS REQUEST FOR APPROVAL IN WRITING WITHIN 5 BUSINESS DAYS, YOUR APPROVAL SHALL BE DEEMED GIVEN**," and Lender fails to respond to such request for approval five (5) Business Days after Lender has received from Borrower such second request and all information reasonably required by Lender in order to adequately review such request, Lender shall be deemed to have given such approval.

(e) Borrower shall furnish to Lender, within five (5) Business Days after request (or as soon thereafter as may be reasonably practicable), such further detailed information with respect to the operation of any of the Individual Properties and the financial affairs of Borrower as may be reasonably requested by Lender and as already exists in Borrower's possession or can be prepared or obtained by Borrower without undue expense.

4.1.7 Title to the Individual Properties. Borrower will warrant and defend the validity and priority of the Liens of the Mortgages and the Assignments of Leases on the Individual Properties against the claims of all Persons whomsoever, subject only to Permitted Encumbrances.

4.1.8 Estoppel Statement.

(a) After request by Lender, Borrower shall within five (5) Business Days furnish Lender with a statement, duly acknowledged and certified, stating (i) the unpaid principal amount of the Note, (ii) the Applicable Interest Rate of the Note, (iii) the date installments of interest and/or principal were last paid, (iv) any offsets or defenses to the payment of the Debt, if any, and (v) that this Agreement and the other Loan Documents have not been modified or if modified, giving particulars of such modification.

(b) Borrower shall deliver to Lender, upon request, an estoppel certificate from each tenant under any Lease and Hotel Lease and each Manager under a Management Agreement; provided that such certificate (i) is available to Borrower pursuant to the terms of such Lease, Hotel Lease or Management Agreement, as applicable, and (ii) may be in the form required under such Lease, Hotel Lease or Management Agreement, as applicable.

4.1.9 Leases.

(a) All Leases to which Borrower is a party executed after the date hereof and all renewals thereof shall (i) provide for rental rates comparable to existing local market rates for similar properties, (ii) be on commercially reasonable terms, (iii) provide that such Lease is subordinate to the Mortgage encumbering the applicable Individual Property and that the lessee will attorn to Lender and (iv) not contain any terms which would materially adversely affect Lender's rights under the Loan Documents.

(b) All Major Leases to which Borrower is a party executed after the date hereof and all renewals thereof shall be subject to Lender's prior approval (other than renewals at the option of the tenant at rents specified in the applicable Major Lease). All Leases to which Borrower is a party and all renewals, amendments and modifications thereof executed after the Effective Maturity Date shall be subject to Lender's prior approval, except with respect to Leases that have been assigned to the Hotel Lessees.

(c) Borrower shall not accept a surrender of any Major Lease to which Borrower is a party without Lender's prior approval (unless the lessee has the unilateral right to terminate such Major Lease). Borrower shall not terminate a Major Lease to which Borrower is a party without Lender's prior approval (unless the other party thereto is in material default and the termination of such Major Lease would be commercially reasonable).

(d) Borrower (i) shall observe and perform in all material respects the obligations imposed upon the lessor under the Leases to which Borrower is a party in a commercially reasonable manner; (ii) shall enforce the material terms, covenants and conditions contained in the Leases to which Borrower is a party upon the part of the lessee thereunder to be observed or performed in a commercially reasonable manner; (iii) shall not collect any of the rents more than one (1) month in advance (other than security deposits); (iv) shall not execute any assignment of lessor's interest in the Leases to which Borrower is a party or the Rents thereunder (except as contemplated by the Loan Documents); and (v) shall not alter, modify or change any Major Lease to which Borrower is a party so as to decrease the amount of or payment date for rent, change the expiration date, grant any option for additional space or term, materially reduce the obligations of the lessee or increase the obligations of lessor without Lender's prior approval, which approval shall not be unreasonably withheld. Except as specifically provided in clause (v) above, Borrower shall have the right to alter, modify or change any Major Lease without Lender's prior approval.

(e) Upon request, Borrower shall furnish Lender with executed copies of all Leases.

(f) The Marquis Borrower shall have the right to assign the Marquis Lease to the Hotel Lessee of the Marriott Marquis without the consent of Lender.

4.1.10 **Alterations**. Except with respect to emergency repairs which require immediate attention, Lender's prior approval shall be required in connection with alterations (a) that are Material Alterations that may have a material adverse impact on the use or operation of such Individual Property or on Borrower's ability to make Debt Service payments at any time during the duration of the work constituting such Material Alteration, (b) that are Material Alterations and the cost of which are reasonably anticipated to exceed the Alteration Threshold or (c) made after the Effective Maturity Date. If the total unpaid contract cost or, if not pursuant to a contract, the anticipated cost, with respect to all Material Alterations to the Improvements (less amounts in any Fund allocated to such Material Alterations) that are either under contract or have commenced shall at any time exceed the Alteration Threshold, Borrower shall promptly deliver to Lender as security for the payment of such amounts and as additional security for Borrower's obligations under the Loan Documents any of the following: (i) cash, (ii) U.S. Obligations, (iii) other securities acceptable to Lender, provided that the applicable Rating Agencies have confirmed in writing that the form and issuer of same will not, in and of itself, result in a downgrade, withdrawal or qualification of the then current ratings assigned in connection with any Securitization, or (iv) a completion bond, the form and issuer of which the applicable Rating Agencies have confirmed in writing will not, in and of itself, result in a downgrade, withdrawal or qualification of the then current ratings assigned in connection with any Securitization. Such security shall be in an amount equal to the excess of the total unpaid amounts with respect to all Material Alterations under contract (other than such amounts to be paid or reimbursed by tenants under the Leases and amounts in any Fund allocated to such alteration) over the Alteration Threshold. At such time as the amount of any security so deposited exceeds the remaining cost to complete the Material Alteration for which such security was deposited, as determined by Lender in its reasonable discretion, Lender shall disburse such excess amounts to Borrower upon Borrower's satisfaction of the conditions set forth in Section 5.3.2(b) – (g) as if such disbursement was a disbursement of Net Proceeds. Borrower shall deliver such evidence as Lender may reasonably require that any Material Alterations are in compliance with all applicable Legal Requirements.

4.1.11 **Material Agreements**. Borrower shall (a) promptly perform and/or observe all of the material covenants and agreements required to be performed and observed by it under each Material Agreement to which it is a party, and do all things necessary to preserve and to keep unimpaired its rights thereunder, (b) promptly notify Lender in writing of the giving of any notice of any default by any party under any Material Agreement of which it is aware and (c) promptly enforce the performance and observance of all of the material covenants and agreements required to be performed and/or observed by the other party under each Material Agreement to which it is a party in a commercially reasonable manner.

4.1.12 **Performance by Borrower**. Borrower shall in a timely manner observe, perform and fulfill each and every covenant, term and provision of each Loan Document executed and delivered by Borrower, and shall not enter into or otherwise suffer or permit any amendment, waiver, supplement, termination or other modification of any Loan Document executed and delivered by Borrower without the prior written consent of Lender.

4.1.13 Costs of Enforcement. In the event (a) that any Mortgage is foreclosed in whole or in part or the Note or any other Loan Document is put into the hands of an attorney for collection, suit, action or foreclosure, (b) of the foreclosure of any Lien or mortgage prior to or subsequent to any Mortgage in which proceeding Lender is made a party, (c) of the bankruptcy, insolvency, rehabilitation or other similar proceeding in respect of any Individual Borrower or an assignment by any Individual Borrower for the benefit of its creditors, or (d) Lender shall attempt to remedy any Event of Default hereunder, Borrower shall be chargeable with and agrees to pay all reasonable costs incurred by Lender as a result thereof, including costs of collection and defense (including reasonable attorneys', experts', consultants' and witnesses' fees and disbursements) in connection therewith and in connection with any appellate proceeding or post-judgment action involved therein, which shall be due and payable together with all required service or use taxes.

4.1.14 Business and Operations. Borrower will continue to engage in the businesses currently conducted by it as and to the extent the same are necessary for the ownership and leasing of the Individual Properties. Each Individual Borrower will qualify to do business and will remain in good standing under the laws of each jurisdiction as and to the extent the same are required for the ownership and leasing of the related Individual Properties. Borrower shall at all times cause the Individual Properties to be maintained as first class full service hotels.

Section 4.2 Borrower Negative Covenants.

Borrower covenants and agrees with Lender that:

4.2.1 Liens. Borrower shall not create, incur, assume or suffer to exist any Lien on any portion of any of the Individual Properties except for Permitted Encumbrances.

4.2.2 Dissolution. Borrower shall not (i) engage in any dissolution, liquidation or consolidation or merger with or into any other business entity, (ii) engage in any business activity not related to the ownership and leasing of the Individual Properties, (iii) transfer, lease or sell, in one transaction or any combination of transactions, all or substantially all of the properties or assets of Borrower except to the extent expressly permitted by the Loan Documents, or (iv) cause, permit or suffer any SPC Party to (A) dissolve, wind up or liquidate or take any action, or omit to take an action, as a result of which any SPC Party would be dissolved, wound up or liquidated in whole or in part, or (B) amend, modify, waive or terminate the certificate of formation, operating agreement, certificate of incorporation or bylaws of any SPC Party, in each case, without obtaining the consent of Lender and written confirmation from the Rating Agencies that such action will not result in the qualification, downgrade or withdrawal of the then current ratings assigned to the Securities.

4.2.3 Change in Business. Borrower shall not enter into any line of business other than the ownership and leasing of the Individual Properties.

4.2.4 Debt Cancellation. Borrower shall not cancel or otherwise forgive or release any material claim or debt (other than termination of Leases or Hotel Leases in accordance herewith) owed to Borrower by any Person, except for adequate consideration and in the ordinary course of Borrower's business.

4.2.5 Affiliate Transactions. Except for Hotel Leases entered into with wholly owned subsidiaries of Host and/or HMC in accordance with Section 7.1(c) hereof, Borrower shall not enter into, or be a party to, any transaction with an Affiliate of Borrower or any of the partners of Borrower except in the ordinary course of business and on terms which are fully disclosed to Lender in advance and are no less favorable to Borrower or such Affiliate than would be obtained in a comparable arm's-length transaction with an unrelated third party.

4.2.6 Zoning. Borrower shall not initiate or consent to any zoning reclassification of any portion of any of the Individual Properties or seek any variance under any existing zoning ordinance or use or permit the use of any portion of any of the Individual Properties in any manner that could result in such use becoming a non-conforming use under any zoning ordinance or any other applicable land use law, rule or regulation, without the prior consent of Lender.

4.2.7 Assets. Borrower shall not purchase or own any properties other than the Individual Properties and, in connection with the exercise of the Purchase Option, the fee interest in the Marriott Marquis.

4.2.8 No Joint Assessment. Borrower shall not suffer, permit or initiate the joint assessment of any Individual Property (i) with any other real property constituting a tax lot separate from such Individual Property, and (ii) with any portion of such Individual Property which may be deemed to constitute personal property, or any other procedure whereby the lien of any taxes which may be levied against such personal property shall be assessed or levied or charged to such Individual Property.

4.2.9 Principal Place of Business. Borrower shall not change its principal place of business set forth on the first page of this Agreement without first giving Lender thirty (30) days prior notice.

4.2.10 ERISA. (a) Borrower shall not engage in any transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Lender of any of its rights under the Note, this Agreement or the other Loan Documents) to be a non-exempt (under a statutory or administrative exemption, whether class or individual) prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**").

(b) Borrower further covenants and agrees to deliver to Lender such certifications or other evidence from time to time throughout the term of the Loan, as requested by Lender in its sole discretion, that (A) Borrower is not and does not maintain an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, or a "governmental plan" within the meaning of Section 3(3) of ERISA; (B) Borrower is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans; and (C) one or more of the following circumstances is true:

(i) Equity interests in Borrower are publicly offered securities, within the meaning of 29 C.F.R. §2510.3-101(b)(2);

(ii) Less than twenty-five percent (25%) of each outstanding class of equity interests in Borrower are held by "benefit plan investors" within the meaning of 29 C.F.R. §2510.3-101(f)(2); or

(iii) Borrower qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. §2510.3-101(c) or (e).

4.2.11 **Material Agreements**. Borrower shall not, without Lender's prior written consent: (a) enter into, surrender or terminate any Material Agreement to which it is a party (unless the other party thereto is in material default and the termination of such agreement would be commercially reasonable), (b) increase or consent to the increase of the amount of any charges under any Material Agreement to which it is a party, except as provided therein or on an arms'-length basis and commercially reasonable terms; or (c) otherwise modify, change, supplement, alter or amend, or waive or release any of its rights and remedies under any Material Agreement to which it is a party in any material respect, except on an arms'-length basis and commercially reasonable terms.

4.2.12 **Ground Lease**. Borrower shall not modify, change, supplement, alter or amend the Ground Lease without the consent of Lender, which consent shall not be unreasonably withheld in connection with non-material amendments to the Ground Lease (it being the agreement of the parties that any modification to the provisions relating to rental (other than adjustments of Schedule A-1 thereto that will not result in the Accrued Unpaid Rent not being repaid in full on or prior to January 1, 2017 or in the incurrence of Shortfall Amounts (as such terms are defined in the Ground Lease)), leasehold mortgages, the Purchase Option or the expiration date or that would increase the obligations of the ground lessee or reduce the liabilities of the Ground Lessor, shall be deemed to be material). Notwithstanding the foregoing, in the event that Lender fails to respond to a request for its approval of a proposed non-material amendment to the Ground Lease within five (5) Business Days of Borrower's request, Borrower may deliver a second request for such approval and, provided that such second request contains a bold faced, conspicuous legend at the top of the first page thereof to the effect that "**IF YOU FAIL TO RESPOND TO THIS REQUEST FOR APPROVAL IN WRITING WITHIN 5 BUSINESS DAYS, YOUR APPROVAL SHALL BE DEEMED GIVEN**," and Lender fails to respond to such request for approval five (5) Business Days after Lender has received from Borrower such second request and all information reasonably required by Lender in order to adequately review such request, Lender shall be deemed to have given such approval.

V. INSURANCE, CASUALTY AND CONDEMNATION

Section 5.1 Insurance.

5.1.1 **Insurance Policies**. (a) Borrower shall obtain and maintain, or cause to be obtained and maintained by the Managers, insurance for Borrower and each of the Individual Properties providing at least the following coverages:

(i) comprehensive all risk insurance on the Improvements and the personal property at the Individual Properties, including contingent liability from Operation of Building Laws, Demolition Costs and Increased Cost of Construction Endorsements, in each case (A) in an amount equal to one hundred percent (100%) of the "**Full Replacement Cost**," which for purposes of this Agreement shall mean actual replacement value (exclusive of costs of excavations, foundations, underground utilities and footings) with a waiver of depreciation, but the amount shall in no event be less than the outstanding principal balance of the Loan; (B) containing an agreed amount endorsement with respect to the Improvements and personal property at the Individual Properties waiving all co-insurance provisions; (C) providing for no deductible with respect to casualty or liability coverage in excess of One Hundred Thousand and No/100 Dollars ($100,000); provided, however, that the deductible with respect to casualty insurance for the Marriott Marquis shall not exceed Seven Hundred Fifty Thousand and No/100 Dollars ($750,000); and (D) containing an "Ordinance or Law Coverage" or "Enforcement" endorsement if any of the Improvements or the use of the Individual Property shall at any time constitute legal non-conforming structures or uses. In addition, Borrower shall obtain: (y) if any portion of the Improvements is currently or at any time in the future located in a federally designated "special flood hazard area", flood hazard insurance in an amount equal to the lesser of (1) the outstanding principal balance of the Loan or (2) the maximum amount of such insurance available under the National Flood Insurance Act of 1968, the Flood Disaster Protection Act of 1973 or the National Flood Insurance Reform Act of 1994, as each may be amended or such greater amount as Lender shall require; and (z) earthquake insurance with a limit of at least Forty-Two Million Two Hundred Fifty Thousand and No/100 Dollars ($42,250,000), inclusive of the deductible, and in form and substance satisfactory to Lender for the Individual Property known as the San Francisco Airport Hyatt Regency located in Burlingame, California and in the amount of the probable maximum loss for any other Individual Property that is located in an area with a high degree of seismic activity, provided that the insurance pursuant to clauses (y) and (z) hereof shall be on terms consistent with the comprehensive all risk insurance policy required under this subsection (i); provided, further, that notwithstanding anything to the contrary contained herein, a deductible of up to Five Million Seven Hundred Fifty Thousand ($5,750,000), as escalated by the CPI Increase, shall be permitted for earthquake insurance for the San Francisco Airport Hyatt Regency. Notwithstanding the foregoing, if at any time (i) the annual premiums for the earthquake insurance for the San Francisco Airport Hyatt Regency shall exceed $1,338,000 and (ii) Borrower shall have received written confirmation from the Rating Agencies that the requested reduction in earthquake coverage will not result in a qualification, downgrade or withdrawal of the then current ratings assigned to the Securities, Borrower shall only be required to obtain such lesser amount of earthquake insurance that can be obtained with annual premiums not in excess of $1,338,000. Pursuant to the Cash Management Agreement, the obligations of Borrower from time to time with respect to the payment of the deductible under the earthquake insurance policy for the San Francisco Airport Hyatt Regency shall be deposited into the Earthquake Deductible Account (as defined in the Cash Management Agreement) prior to the disbursement of any excess funds to Borrower. Funds so deposited in the Earthquake Deductible Account shall be disbursed to Borrower for the Restoration of the San Francisco Airport Hyatt Regency in accordance with the procedures set forth in Section 5.3.2(b) – (g) as if such amounts were Net Proceeds. If sufficient amounts have not been deposited in the Earthquake Deductible Account for the payment of the earthquake deductible within six (6) months of the insured Casualty, Guarantor shall, pursuant to the terms and conditions of the Guaranty, be liable for any shortfall.

(ii) commercial general liability insurance against claims for personal injury, bodily injury, death or property damage occurring upon, in or about the Individual Property, such insurance (A) to be on the so-called "occurrence" form with a combined limit of not less than One Million and No/100 Dollars ($1,000,000); (B) to continue at not less than the aforesaid limit until required to be changed by Lender in writing by reason of changed economic conditions making such protection inadequate; and (C) to cover at least the following hazards: (1) premises and operations; (2) products and completed operations on an "if any" basis; (3) independent contractors; (4) blanket contractual liability for all legal contracts; and (5) contractual liability covering the indemnities contained in Article 9 of the Mortgages to the extent the same is available;

(iii) business income insurance (A) with loss payable to Lender; (B) covering all risks required to be covered by the insurance provided for in subsection (i) above; (C) containing an extended period of indemnity endorsement which provides that the continued loss of income will be insured from the date of the physical loss to the Improvements and Personal Property through the earlier of (1) the date such income returns to the same level it was at prior to the loss, or (2) the expiration of twelve (12) months from the date that the Individual Property is repaired or replaced and operations are resumed, and notwithstanding that the policy may expire prior to the end of such period; and (D) in an amount equal to one hundred percent (100%) of the related Individual Borrower's projected rental income from the Individual Property for such period. The amount of such business income insurance shall be determined prior to the date hereof and at least once each year thereafter based on Borrower's reasonable estimate of the gross income from the Individual Property for the succeeding twelve (12) month period. All proceeds payable to Lender pursuant to this subsection shall be held by Lender and shall be applied to the obligations secured by the Loan Documents from time to time due and payable hereunder and under the Note; provided, however, that nothing herein contained shall be deemed to relieve Borrower of its obligations to pay the obligations secured by the Loan Documents on the respective dates of payment provided for in the Note and the other Loan Documents except to the extent such amounts are actually paid out of the proceeds of such business income insurance;

(iv) at all times during which structural construction, repairs or alterations are being made with respect to the Improvements, and only if the Individual Property coverage form does not otherwise apply, (A) contractor's liability insurance covering claims not covered by or under the terms or provisions of the above mentioned commercial general liability insurance policy; and (B) the insurance provided for in subsection (i) above written in a so-called builder's risk completed value form (1) on a non-reporting basis, (2) against all risks insured against pursuant to subsection (i) above, (3) including permission to occupy the Individual Property, and (4) with an agreed amount endorsement waiving co-insurance provisions;

(v) workers' compensation, subject to the statutory limits of the state in which the Individual Property is located, and employer's liability insurance with a limit of at least One Million and No/100 Dollars ($1,000,000) per accident and per disease per employee, and One Million and No/100 Dollars ($1,000,000) for disease aggregate in respect of any work or operations on or about the Individual Property, or in connection with the Individual Property or its operation (if applicable);

(vi) comprehensive boiler and machinery insurance, if applicable, in amounts as shall be reasonably required by Lender on terms consistent with the commercial property insurance policy required under subsection (i) above;

(vii) umbrella liability insurance in addition to primary coverage in an amount not less than One Hundred Million and No/100 Dollars ($100,000,000) per occurrence on terms consistent with the commercial general liability insurance policy required under subsection (ii) above;

(viii) motor vehicle liability coverage for all owned and non-owned vehicles, including rented and leased vehicles containing minimum limits per occurrence, of One Million and No/100 Dollars ($1,000,000);

(ix) so-called "dramshop" insurance or other liability insurance required in connection with the sale of alcoholic beverages;

(x) insurance against employee dishonesty in an amount not less than one (1) month of gross revenue from such Individual Property and with a deductible not greater than Ten Thousand and No/100 Dollars; and

(xi) upon sixty (60) days' written notice, such other reasonable insurance and in such reasonable amounts as Lender from time to time may reasonably request against such other insurable hazards which at the time are commonly insured against for property similar to the Individual Property located in or around the region in which the Individual Property is located.

(b) All insurance provided for in Section 5.1.1(a) shall be obtained under valid and enforceable policies (collectively, the "**Policies**" or in the singular, the "**Policy**"), and shall be subject to the reasonable approval of Lender as to deductibles, loss payees and insureds. Not less than ten (10) days prior to the expiration dates of the Policies theretofore furnished to Lender, certificates of insurance evidencing the Policies accompanied by evidence satisfactory to Lender of payment of the premiums due thereunder (the "**Insurance Premiums**"), shall be delivered by Borrower to Lender.

(c) Any blanket insurance Policy shall specifically allocate to the Individual Property the amount of coverage from time to time required hereunder and shall otherwise provide the same protection as would a separate Policy insuring only the Individual Property in compliance with the provisions of Section 5.1.1(a).

(d) All Policies of insurance provided for or contemplated by Section 5.1.1(a), except for the Policy referenced in Section 5.1.1(a)(v), shall name Borrower as the insured and Lender and its successors and/or assigns as the additional insured, as its interests may appear, and in the case of property damage, boiler and machinery, flood and earthquake insurance, shall contain a so-called New York standard non-contributing mortgagee clause in favor of Lender providing that the loss thereunder shall be payable to Lender.

(e) All Policies of insurance provided for in Section 5.1.1(a)(v) shall contain clauses or endorsements to the effect that:

(i) no act or negligence of Borrower, or anyone acting for Borrower, or of any tenant or other occupant, or failure to comply with the provisions of any Policy, which might otherwise result in a forfeiture of the insurance or any part thereof, shall in any way affect the validity or enforceability of the insurance insofar as Lender is concerned;

(ii) the Policy shall not be materially changed (other than to increase the coverage provided thereby) or canceled without at least thirty (30) days' written notice to Lender and any other party named therein as an additional insured; and

(iii) Lender shall not be liable for any Insurance Premiums thereon or subject to any assessments thereunder.

(f) If at any time Lender is not in receipt of written evidence that all insurance required hereunder is in full force and effect, Lender shall have the right, without notice to Borrower, to take such action as Lender deems necessary to protect its interest in the Individual Property, including, without limitation, the obtaining of such insurance coverage as Lender in its sole discretion deems appropriate and all premiums incurred by Lender in connection with such action or in obtaining such insurance and keeping it in effect shall be paid by Borrower to Lender upon demand and until paid shall be secured by the Mortgages and shall bear interest at the Default Rate.

(g) In the event of foreclosure of the Mortgage with respect to the Individual Property, or other transfer of title to the Individual Property in extinguishment in whole or in part of the Debt all right, title and interest of Borrower in and to the Policies that are not blanket Policies then in force concerning the Individual Property and all proceeds payable thereunder shall thereupon vest in the purchaser at such foreclosure or Lender or other transferee in the event of such other transfer of title.

5.1.2 Insurance Company. The Policies shall be issued by financially sound and responsible insurance companies authorized to do business in the state in which each Individual Property is located. Each of such insurance companies shall have a claims paying ability rating of "AA-" or better by Standard & Poor's and an insurance financial strength rating of "A2" or better by Moody's or, if Moody's does not provide a rating, then at least A(IX) by A.M. Best (except with respect to the earthquake insurance, for which all insurance companies shall have a claims paying ability rating of "BBB-" or better by S&P and an insurance financial strength rating of "Baa3" or better by Moody's, with an average claims paying ability rating of "A-" or better by S&P and an average insurance financial strength rating of "A3" or better by Moody's or, if Moody's does not provide a rating, then at least A-(VI) by A.M. Best).

Section 5.2 Casualty and Condemnation.

5.2.1 **<u>Casualty</u>**. If an Individual Property shall sustain a Casualty, Borrower shall give prompt notice of such Casualty to Lender and shall promptly commence and diligently prosecute to completion of the repair and restoration of the Individual Property as nearly as possible to the condition the Individual Property was in immediately prior to such Casualty (a "**Restoration**") and otherwise in accordance with and subject to Section 5.3. Borrower shall pay all costs of such Restoration whether or not such costs are covered by insurance. Lender may, but shall not be obligated to, make proof of loss if not made promptly by Borrower.

5.2.2 **<u>Condemnation</u>**. Borrower shall give Lender prompt notice of any actual or threatened Condemnation by any Governmental Authority of all or any part of any Individual Property and shall deliver to Lender a copy of any and all papers served in connection with such proceedings. Lender may participate in any such proceedings, and Borrower shall from time to time deliver to Lender all instruments requested by Lender to permit such participation. Borrower shall, at its expense, diligently prosecute any such proceedings, and shall consult with Lender, its attorneys and experts, and cooperate with them in the carrying on or defense of any such proceedings. Notwithstanding any Condemnation, Borrower shall continue to pay the Debt at the time and in the manner provided for its payment in the Note and in this Agreement. Lender shall not be limited to the interest paid on the Award by any Governmental Authority but shall be entitled to receive out of the Award interest at the rate or rates provided herein or in the Note. If an Individual Property or any portion thereof is taken by any Governmental Authority, Borrower shall promptly commence and diligently prosecute the Restoration of the Individual Property and otherwise comply with the provisions of Section 5.3. If the Individual Property is sold, through foreclosure or otherwise, prior to the receipt by Lender of the Award, Lender shall have the right, whether or not a deficiency judgment on the Note shall have been sought, recovered or denied, to receive the Award, or a portion thereof sufficient to pay the Debt.

Section 5.3 Delivery of Net Proceeds.

5.3.1 **<u>Minor Casualty or Condemnation</u>**. If a Casualty or Condemnation has occurred to an Individual Property and the Net Proceeds shall be less than the Restoration Threshold and the costs of completing the Restoration shall be less than the Restoration Threshold, and provided no Event of Default shall have occurred and remain uncured, the Net Proceeds will be disbursed by Lender to Borrower. Promptly after receipt of the Net Proceeds, Borrower shall commence and satisfactorily complete with due diligence the Restoration in accordance with the terms of this Agreement.

5.3.2 **<u>Major Casualty or Condemnation</u>**. (a) If a Casualty or Condemnation has occurred to an Individual Property and the Net Proceeds are equal to or greater than the Restoration Threshold or the costs of completing the Restoration is equal to or greater than the Restoration Threshold Lender shall make the Net Proceeds available for the Restoration, provided that each of the following conditions are met:

(i) no Event of Default shall have occurred and be continuing;

(ii) (A) in the event the Net Proceeds are insurance proceeds, such Net Proceeds are less than thirty percent (30%) of the Original Appraised Value of the Individual Property that is the subject of such Casualty or (B) in the event the Net Proceeds are an Award, no portion of the Improvements constituting the hotel located on the related Individual Property and no material portion of the other Improvements are the subject of the Condemnation nor is access thereto materially impaired as a result of such Condemnation;

(iii) Borrower shall commence the Restoration as soon as reasonably practicable (but in no event later than sixty (60) days after such Casualty or Condemnation, whichever the case may be, occurs) and shall diligently pursue the same to satisfactory completion;

(iv) Lender shall be satisfied that any operating deficits and all payments of principal and interest under the Note will be paid during the period required for Restoration from (A) the Net Proceeds, or (B) other funds of Borrower;

(v) Lender shall be satisfied that the Restoration will be completed on or before the earliest to occur of (A) the date six (6) months prior to the Effective Maturity Date, (B) the earliest date required for such completion under the terms of any Major Lease, (C) such time as may be required under applicable Legal Requirements in order to repair and restore the applicable Individual Property to the condition it was in immediately prior to such Casualty or to as nearly as possible the condition it was in immediately prior to such Condemnation, as applicable or (D) the expiration of the insurance coverage referred to in Section 5.1.1(a)(iii); provided that if such insurance coverage expires prior to the anticipated completion date of such Restoration, Borrower may deposit collateral reasonably acceptable to Lender in an amount sufficient to pay the Debt Service and make the required deposits of Funds for such Individual Property until the completion of such Restoration, in which case the condition set forth in this Section 5.3.2(a)(v)(D) shall be deemed satisfied;

(vi) the Individual Property and the use thereof after the Restoration will be in compliance with and permitted under all applicable Legal Requirements;

(vii) the Restoration shall be done and completed by Borrower in an expeditious and diligent fashion and in compliance with all applicable Legal Requirements; and

(viii) such Casualty or Condemnation, as applicable, does not result in the loss of access to the Individual Property or the related Improvements or have an adverse effect on the ingress or egress to the Individual Property or the related Improvements.

(b) The Net Proceeds shall be paid directly to Lender and held by Lender in an interest-bearing Eligible Account and, until disbursed in accordance with the provisions of this Section 5.3.2, shall constitute additional security for the Debt. The Net Proceeds shall be disbursed by Lender to, or as directed by, Borrower from time to time during the course of the Restoration, upon receipt of evidence satisfactory to Lender that (A) all requirements set forth in Section 5.3.2(a) have been satisfied, (B) all materials installed and work and labor performed (except to the extent that they are to be paid for out of the requested disbursement) in connection with the Restoration have been paid for in full, and (C) there exist no notices of pendency, stop orders, mechanic's or materialman's liens or notices of intention to file same, or any other liens or encumbrances of any nature whatsoever on the Individual Property arising out of the Restoration which have not either been fully bonded to the satisfaction of Lender and discharged of record or in the alternative fully insured to the satisfaction of Lender by the title company issuing the Title Insurance Policy.

(c) All plans and specifications required in connection with the Restoration shall be subject to prior approval by Lender and by an independent architect selected by Lender (the "**Casualty Consultant**"). The identity of the contractors engaged in the Restoration, as well as the contracts under which they have been engaged, shall be subject to approval by Lender and the Casualty Consultant, which approval with respect to the contractor shall not be unreasonably withheld and with respect to the contracts shall be given if the contracts are reasonably similar to the industry standard. In the event that Lender or the Casualty Consultant fails to respond to any such request for approval of proposed plans, specifications or contract or a proposed contractor within ten (10) Business Days of Borrower's request, Borrower may deliver a second request for such approval and, provided that such second request contains a bold faced, conspicuous legend at the top of the first page thereof to the effect that "**IF YOU FAIL TO RESPOND TO THIS REQUEST FOR APPROVAL IN WRITING WITHIN TEN (10) BUSINESS DAYS, YOUR APPROVAL SHALL BE DEEMED GIVEN**," and Lender or the Casualty Consultant fails to respond to such request for approval ten (10) Business Days after Lender and the Casualty Consultant have received from Borrower such second request and all information reasonably required by Lender and the Casualty Consultant in order to adequately review such request, Lender and the Casualty Consultant shall be deemed to have given such approval. All costs and expenses incurred by Lender in connection with recovering, holding and advancing the Net Proceeds for the Restoration including, without limitation, reasonable attorneys' fees and disbursements and the Casualty Consultant's fees and disbursements, shall be paid by Borrower.

(d) In no event shall Lender be obligated to make disbursements of the Net Proceeds in excess of an amount equal to the costs actually incurred from time to time for work in place as part of the Restoration, as certified by the Casualty Consultant, less the Casualty Retainage. The term "**Casualty Retainage**" shall mean an amount equal to ten percent (10%) of the costs actually incurred for work in place as part of the Restoration, as certified by the Casualty Consultant, until the Restoration has been completed. The Casualty Retainage shall in no event, and notwithstanding anything to the contrary set forth above in this Section 5.3.2(d), be less than the amount actually held back by Borrower from contractors, subcontractors and materialmen engaged in the Restoration. The Casualty Retainage shall not be released until the Casualty Consultant certifies to Lender that the Restoration has been completed in accordance with the provisions of this Section 5.3.2(d) and that all approvals necessary for the re-occupancy and use of the Individual Property have been obtained from all appropriate Governmental Authorities, and Lender receives evidence satisfactory to Lender that the costs of the Restoration have been paid in full or will be paid in full out of the Casualty Retainage; provided, however, that Lender will release the portion of the Casualty Retainage being held with respect to any contractor, subcontractor or materialman engaged in the Restoration as of the date upon which the Casualty Consultant certifies to Lender that the contractor, subcontractor or materialman has satisfactorily completed all work and has supplied all materials in accordance with the provisions of the contractor's, subcontractor's or materialman's contract, the contractor, subcontractor or materialman delivers the lien waivers and evidence of payment in full of all sums due to the contractor, subcontractor or materialman as may be reasonably requested by Lender or by the title company issuing the Title Insurance Policy, and Lender receives an endorsement to the Title Insurance Policy insuring the continued priority of the lien of the related Mortgage and evidence of payment of any premium payable for such endorsement. If required by Lender, the release of any such portion of the Casualty Retainage shall be approved by the surety company, if any, which has issued a payment or performance bond with respect to the contractor, subcontractor or materialman.

(e) Lender shall not be obligated to make disbursements of the Net Proceeds more frequently than once every calendar month.

(f) If at any time the Net Proceeds or the undisbursed balance thereof shall not, in the opinion of Lender in consultation with the Casualty Consultant, be sufficient to pay in full the balance of the costs which are estimated by the Casualty Consultant to be incurred in connection with the completion of the Restoration, Borrower shall deposit the deficiency (the "**Net Proceeds Deficiency**") with Lender before any further disbursement of the Net Proceeds shall be made. The Net Proceeds Deficiency deposited with Lender shall be held by Lender and shall be disbursed for costs actually incurred in connection with the Restoration on the same conditions applicable to the disbursement of the Net Proceeds, and until so disbursed pursuant to this Section 5.3.2 shall constitute additional security for the Debt.

(g) The excess, if any, of the Net Proceeds and the remaining balance, if any, of the Net Proceeds Deficiency deposited with Lender after the Casualty Consultant certifies to Lender that the Restoration has been completed in accordance with the provisions of this Section 5.3.2, and the receipt by Lender of evidence satisfactory to Lender that all costs incurred in connection with the Restoration have been paid in full, shall be remitted by Lender to Borrower, provided no Event of Default shall have occurred and shall be continuing under any of the Loan Documents.

(h) All Net Proceeds not required (i) to be made available for the Restoration or (ii) to be returned to Borrower as excess Net Proceeds pursuant to Section 5.3.2(g) may be retained and applied by Lender toward the payment of any Component of the Loan whether or not then due and payable in such order, priority and proportions as Lender in its sole discretion shall deem proper, or, at the discretion of Lender, the same may be paid, either in whole or in part, to Borrower for such purposes as Lender shall designate.

(i) Notwithstanding the foregoing requirements of this Section 5.3.2, if a Casualty or Condemnation has occurred to the Marriott Marquis, Lender shall make the Net Proceeds available for the Restoration to the extent that the Net Proceeds are required to be made available for Restoration under the Management Agreement for the Marriott Marquis.

VI. RESERVE FUNDS

Section 6.1 Required Repair Funds, General Repair Funds.

6.1.1 Deposit of Required Repair Funds. Borrower shall perform the repairs at the Individual Properties as set forth on Schedule II hereto (such repairs hereinafter referred to as "**Required Repairs**"). Borrower shall complete each of the Required Repairs on or before the deadline, if any, for each repair as set forth on Schedule II. On the Closing Date, Borrower shall deposit with Cash Management Bank Three Hundred Fifty Thousand and No/100 Dollars ($350,000) to perform the specified Required Repair at the Drake Swissôtel (such amount so deposited shall hereinafter be referred to as the "**Required Repair Funds**").

6.1.2 Release of Required Repair Funds. Lender shall disburse the Required Repair Funds to Borrower upon delivery to Lender of a "No Further Action Letter" or other evidence satisfactory to Lender that the subject Required Repair at the Drake Swissôtel has been completed in accordance with all Legal Requirements.

6.1.3 Deposit and Release of General Repair Fund. On the Closing Date, Borrower shall deposit with Cash Management Bank the amount of Six Million Two Hundred Sixty-Three Thousand Five Hundred Forty-Two and No/100 Dollars ($6,263,542) (such amounts so deposited shall hereinafter be referred to as the "**General Repair Funds**") into the same account established for the deposit of Required Repair Funds. Borrower shall have the right from time to time to cause General Repair Funds to be transferred to the accounts maintained pursuant to the Cash Management Agreement for FF&E Funds. Amounts so deposited shall be deemed to be FF&E Funds and disbursed in the manner set forth in Section 6.5. Borrower shall have no other right to withdrawals of General Repair Funds.

Section 6.2 Tax Funds.

6.2.1 Deposit of Tax Funds. On the Closing Date, Borrower shall deposit with Cash Management Bank the amount of One Million Eight Hundred Twenty-Five Thousand and No/100 ($1,825,000) and on each Debt Service Payment Date Borrower shall deposit with Cash Management Bank an amount equal to one-twelfth of the Taxes that Lender reasonably estimates will be payable during the next ensuing twelve (12) months in order to accumulate with Lender sufficient funds to pay all such Taxes at least ten (10) days prior to their respective due dates (such amounts so deposited shall hereinafter be referred to as the "**Tax Funds**"). If at any time Lender reasonably determines that the Tax Funds will not be sufficient to pay the Taxes, Lender shall notify Borrower of such determination and the monthly deposits for Taxes shall be increased by the amount that Lender estimates is sufficient to make up the deficiency at least ten (10) days prior to the respective due dates for the Taxes; provided that if Borrower receives notice of any deficiency after the date that is ten (10) days prior to the date that Taxes are due, Borrower will deposit such amount within three (3) Business Days after its receipt of such notice.

6.2.2 Release of Tax Funds. Subject to the provisions of 6.8.2 hereof, Lender shall apply the Tax Funds to payments of Taxes (other than Taxes that Borrower is contesting in accordance with Section 4.1.2 hereof). In making any payment relating to Taxes, Lender may do so according to any bill, statement or estimate procured from the appropriate public office (with respect to Taxes) without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax, assessment, sale, forfeiture, tax lien or title or claim thereof.

Section 6.3 Insurance Premium Funds.

6.3.1 Deposits of Insurance Premium Funds. On the Closing Date, Borrower shall deposit with Cash Management Bank the amount of One Million Seven Hundred Fifteen Thousand Five Hundred Forty-Five and No/100 ($1,715,545) and on each Debt Service Payment Date Borrower shall deposit with Cash Management Bank an amount equal to one-twelfth of the Insurance Premiums that Lender reasonably estimates will be payable for the renewal of the coverage afforded by the Policies upon the expiration thereof in order to accumulate with Lender sufficient funds to pay all such Insurance Premiums at least thirty (30) days prior to the expiration of the Policies (such amounts so deposited shall hereinafter be referred to as the "**Insurance Premium Funds**"). If at any time Lender reasonably determines that the Insurance Premium Funds will not be sufficient to pay the Insurance Premiums, Lender shall notify Borrower of such determination and Borrower shall increase its monthly payments to Lender by the amount that Lender estimates is sufficient to make up the deficiency at least thirty (30) days prior to expiration of the Policies. Provided that (a) MII or a wholly owned subsidiary of MII is the manager of the Marriott Marquis, (b) MII has the Minimum Manager Rating, and (c) MII is obligated to pay and is paying the Insurance Premiums with respect to the Marriott Marquis in accordance with the applicable Management Agreement, Borrower shall not be required to deposit Insurance Premium Funds with respect to the Marriott Marquis except during a Lockbox Period (as defined in the related Deposit Account Agreement).

6.3.2 Release of Insurance Premium Funds. Subject to the provisions of Section 6.8.2 hereof, Lender shall apply the Insurance Premium Funds to payment of Insurance Premiums. In making any payment relating to Insurance Premiums, Lender may do so according to any bill, statement or estimate procured from the insurer or its agent, without inquiry into the accuracy of such bill, statement or estimate.

Section 6.4 Ground Rent Funds.

6.4.1 Deposits of Ground Rent Funds. On each Debt Service Payment Date Borrower shall deposit with Cash Management Bank an amount equal to one-twelfth of the Ground Rent that Lender reasonably estimates will be payable during the next ensuing twelve (12) months in order to accumulate with Lender sufficient funds to pay all such Ground Rent at least ten (10) days prior to its due date (such amounts so deposited shall hereinafter be referred to as the "**Ground Rent Funds**"). Borrower acknowledges that the Ground Rent is paid in two annual installments, one on July 1 and one on January 1, based upon the Rent attributable to the Marriott Marquis. The amount of the deposits of Ground Rent Funds shall be calculated by Lender based upon the greater of the actual Rent for the prior calendar year or the projected Rent for the subject year as set forth in the Annual Budget. If at any time Lender reasonably determines that the Ground Rent Funds will not be sufficient to pay the Ground Rent, Lender shall notify Borrower of such determination and the monthly deposits for Ground Rent shall be increased by the amount that Lender estimates is sufficient to make up the deficiency at least ten (10) days prior to the respective due dates for the Ground Rent; provided that if Borrower receives notice of any deficiency after the date that is ten (10) days prior to the date that Ground Rent is due, Borrower will deposit such amount within three (3) Business Day after its receipt of such notice.

6.4.2 **Release of Ground Rent Funds**. Subject to the provisions of Section 6.8.2 hereof, Lender shall apply the Ground Rent Funds to payments of Ground Rent.

Section 6.5 FF&E Funds.

6.5.1 **Deposits of FF&E Funds**. On the Closing Date, Borrower shall deposit with Cash Management Bank the amount of Seventeen Million Five Hundred Sixty-Four Thousand Seven Hundred Twenty-Five and No/100 Dollars ($17,564,725) and Borrower shall thereafter deposit or, as applicable, shall cause the related Manager to deposit with Lender reserves for FF&E Expenses, at the times and in the amounts required under each of the Management Agreements and Hotel Leases or, with respect to the Marriott Marquis, the Adjusted FF&E Amount (as defined in the related Deposit Account Agreement) (such amounts so deposited shall hereinafter be referred to as the "**FF&E Funds**"). On or before February 1 in the years 2000, 2001 and 2002, Borrower shall deliver to Lender an Officer's Certificate setting forth the amount of FF&E Expenses for the prior calendar year. Borrower shall deposit additional FF&E Funds in the amount by which the sum of such FF&E Expenses and the deposits of General Repair Funds and FF&E Funds made during such period is less than (i) Thirty Million and No/100 Dollars ($30,000,000) with respect to 1999, (ii) Fifteen Million and No/100 Dollars ($15,000,000) with respect to 2000, and (iii) Twenty Million and No/100 Dollars ($20,000,000) with respect to 2001.

6.5.2 **Withdrawals of FF&E Funds**. (a) Lender shall disburse FF&E Funds to the Managers provided that the conditions to disbursement set forth in the Cash Management Agreement have been satisfied. Lender shall disburse FF&E Funds only for the payment of FF&E Expenses.

(b) Subject to the provisions of the Hotel Leases and Management Agreements, Borrower shall permit Lender and Lender's agents and representatives (including, without limitation, Lender's engineer, architect, or inspector) or third parties to enter onto each Individual Property during normal business hours (subject to the rights of tenants under their Leases) to inspect the progress of any Capital Expenditures Work and all materials being used in connection therewith and to examine all plans and shop drawings relating to such Capital Expenditures Work. Borrower shall cause all contractors and subcontractors to cooperate with Lender or Lender's representatives or such other Persons described above in connection with inspections described in this Section 6.5.2(b).

(c) If a disbursement of FF&E Funds is for Capital Expenditures Work that is structural in nature and will exceed $500,000, Lender may require an inspection of the Individual Property at Borrower's expense in order to verify completion of the Capital Expenditures Work for which reimbursement is sought. Lender may require that such inspection be conducted by an appropriate independent qualified professional selected by Lender and may require a certificate of completion by an independent qualified professional architect acceptable to Lender prior to the disbursement of FF&E Funds. Borrower shall pay the expense of the inspection as required hereunder, whether such inspection is conducted by Lender or by an independent qualified professional architect.

(d) In addition to any insurance required under the Loan Documents, Borrower shall provide or cause to be provided workmen's compensation insurance, builder's risk, and public liability insurance and other insurance to the extent required under applicable law in connection with FF&E Expenses that involve Capital Expenditures Work. Evidence of such insurance shall be promptly provided by Borrower upon request by Lender.

Section 6.6 Debt Service Reserve Funds.

6.6.1 <u>Deposits of Debt Service Reserve Funds</u>. On the Closing Date, Borrower shall deposit with Cash Management Bank (a) an amount equal to the Monthly Debt Service Payment Amount for the entire Loan, (b) an amount equal to one additional month of the Monthly Debt Service Amount for the Hyatt Properties (based on the Allocated Loan Amounts for the Hyatt Properties), (c) an amount equal to one additional month of the Monthly Debt Service Amount for the Swissôtel Properties (based on the Allocated Loan Amounts for the Swissôtel Properties) and (d) the amount by which the deductible for the insurance on the Marriott Marquis exceeds One Hundred Thousand and No/100 Dollars ($100,000), such amounts to be held as additional security for the Loan (such amounts so deposited shall hereinafter be referred to as the "**Debt Service Reserve Funds**"). In the event that Lender withdraws Debt Service Reserve Funds pursuant to Section 6.6.2 or Section 6.8.2 of this Agreement, Borrower shall deposit additional Debt Service Reserve Funds in the amount so withdrawn within one (1) Business Day after notice of such withdrawal.

6.6.2 <u>Release of Debt Service Reserve Funds</u>. Debt Service Reserve Funds may be drawn upon by Lender upon the occurrence of an Event of Default, and may not be drawn upon by Borrower.

Section 6.7 Marquis Option Funds/Host Commitment.

6.7.1 <u>Deposits of Marquis Option Funds/Host Commitment</u>. Commencing with the Debt Service Payment Date occurring in July 2006, through and including the Debt Service Payment Date occurring in June, 2007, Borrower shall deposit with Cash Management Bank equal monthly deposits in an amount such that, when invested in Permitted Investments at the then-current rate of return on Permitted Investments, a total of Twenty Million and No/100 Dollars ($20,000,000) would be on reserve on December 31, 2016 (such amounts so deposited shall hereinafter be referred to as the "**Marquis Option Funds**"). In lieu of making such deposits, Borrower may provide on or prior to July 1, 2006 an irrevocable, unconditional commitment (a "**Host Commitment**") from Host or a creditworthy Affiliate of Host reasonably acceptable to Lender to (a) if Lender so elects, make a non-recourse mortgage loan to Lender secured by the fee interest in the Marriott Marquis in the amount of Twenty Million and No/100 Dollars ($20,000,000) in the event Lender shall have foreclosed on the related Mortgage or accepted a deed in lieu of foreclosure and elects to exercise the Purchase Option, (b) pay to Lender the amount of Twenty Million and No/100 Dollars ($20,000,000) in the event Lender exercises its right to exercise the Purchase Option due to the failure of the Marquis Borrower to so exercise the Purchase Option or (c) in the event the such Individual Borrower elects to exercise the Purchase Option and has insufficient funds to do so, make a capital contribution in the amount of such insufficiency, up to Twenty Million and No/100 Dollars ($20,000,000), to such Individual Borrower. The loan provided pursuant to the Host Commitment shall have a term of ten (10) years and provide for monthly payments of interest calculated at a fixed rate of seven and one-half percent (7.5%). In the event that Borrower has delivered a Host Commitment in lieu of the foregoing deposits of Marquis Option Funds and either (x) the Debt Service Coverage Ratio (based upon the then-outstanding balance of the Loan) on the date that is three months prior to the eighth (8^{th}) anniversary of the Closing Date (the "**Determination Date**") is less than 2.68x or (y) the loan to value ratio (based upon the then-outstanding balance of the Loan) on the Determination Date based on an MAI appraisal acceptable to Lender is greater than 34.6%, commencing on the Debt Service Payment Date occurring in July, 2007 through and including the Debt Service Payment Date occurring in June, 2009, Borrower shall, notwithstanding the delivery of the Host Commitment, deposit equal monthly deposits of Marquis Option Funds in an amount such that, when invested at the then-current rate of return on a Permitted Investment selected by Borrower at such time, a total of Twenty Million and No/100 Dollars ($20,000,000) would be in the Marquis Option Reserve on December 31, 2016. In the event that sufficient amounts are deposited into the Marquis Option Reserve in accordance with this Section 6.7.1, the Host Commitment may be terminated. Additionally, in the event that Borrower obtains an amendment to the Ground Lease in form and substance satisfactory to Lender extending the term thereof to a date that is at least ten (10) years after the Maturity Date, the provisions of this Section 6.7.1 shall no longer apply, any Marquis Option Funds then on deposit shall be returned to Borrower and the Host Commitment may be terminated.

6.7.2 **Release of Marquis Option Funds; Draw Upon Host Commitment**. Provided no Event of Default shall have occurred and be continuing, Lender shall disburse the Marquis Option Funds to Borrower in order to fund its exercise of the Purchase Option. If (a) Lender has acquired Borrower's interest in the Marriott Marquis through foreclosure or delivery of a deed in lieu of foreclosure and elects at any time to exercise the Purchase Option, or (b) if Borrower has not exercised the Purchase Option by January 1, 2017, Lender shall have the right to apply the Marquis Option Funds or draw upon the Host Commitment, as applicable, to exercise the Purchase Option.

Section 6.8 Provisions Regarding Funds.

6.8.1 **Grant of Security Interest**. Borrower shall be the owner of the Funds. Pursuant to the Cash Management Agreement, Borrower has pledged, assigned and granted a security interest to Lender, as security for payment of the Debt and the performance of all other terms, conditions and covenants of the Loan Documents on Borrower's part to be paid and performed, in all of Borrower's right, title and interest in and to the Funds.

6.8.2 **Event of Default**. Upon the occurrence of an Event of Default, Lender, at its option, may withdraw any or all of the Funds and apply such Funds to the payment of the items for which such Funds were established or to payment of the Debt in such order, proportion and priority as Lender may determine in its sole discretion. Lender's right to so withdraw and apply the Funds shall be in addition to all other rights and remedies provided to Lender under the Loan Documents.

6.8.3 Income Taxes. Borrower shall report on its federal, state and local income tax returns all interest or income accrued on the Funds.

6.8.4 Prohibition Against Further Encumbrance. Borrower shall not, without the prior consent of Lender, further pledge, assign or grant any security interest in the Funds or permit any lien or encumbrance to attach thereto, or any levy to be made thereon, or any UCC-1 Financing Statements, except those naming Lender as the secured party, to be filed with respect thereto.

6.8.5 Release Upon Repayment. Any Funds remaining after the Debt has been paid in full shall be returned to Borrower.

6.8.6 Quarterly Payments. In the event a Hotel Lease provides for the payment of Hotel Lease Rent on a quarterly basis, Borrower will be required to make quarterly deposits in advance on the applicable Rent Payment Date in an amount equal to the Debt Service and deposits of Funds allocable to the related Individual Properties for the next following three (3) month period (inclusive of the month in which such Rent Payment Date occurs).

6.8.7 Deposits Made Pursuant to Cash Management Agreement. To the extent deposits of the Funds are made in accordance with the terms and conditions of the Cash Management Agreement, such deposits shall satisfy Borrower's obligations pursuant to this Article VI.

Section 6.9 Letters of Credit in Lieu of Reserves

6.9.1 Delivery of Letters of Credit. (a) In lieu of making the payments to any of the Funds, Borrower may deliver to Lender a Letter of Credit in accordance with the provisions of this Section 6.9. The amount of any Letter of Credit delivered in lieu of monthly payments of Tax Funds, Insurance Funds or Ground Rent Funds shall be equal to the amount of the initial required deposit and the amount which Borrower would reasonably be estimated to be required to deposit in such Fund in the next related one (1) year period, as determined by Lender. The amount of any Letter of Credit delivered in lieu of deposits required with respect to Required Repair Funds or Marquis Option Funds shall equal the amount of the total deposits required herein.

(b) Borrower shall give Lender no less than thirty (30) days notice of Borrower's election to deliver a Letter of Credit and Borrower shall pay to Lender all of Lender's reasonable out-of-pocket costs and expenses in connection therewith. Borrower shall not be entitled to draw from any such Letter of Credit. Borrower may resume its monthly escrow requirements if a Letter of Credit has been outstanding for more than six (6) months upon thirty (30) days notice to Lender. Prior to the return of a Letter of Credit, Borrower shall deposit an amount equal to the amount that would have accumulated in the applicable Fund and not been disbursed in accordance with this Agreement if such Letter of Credit had not been delivered.

(c) Borrower shall provide Lender with notice of any increases in the annual payments for Taxes, Insurance Premiums or Ground Rent thirty (30) days prior to the effective date of any such increase and any applicable Letter of Credit shall be increased by such increased amount at least ten (10) days prior to the effective date of such increase.

Section 6.10 Provisions Regarding Letters of Credit.

6.10.1 **Security for Debt**. Each Letter of Credit delivered under this Agreement shall be additional security for the payment of the Debt. Upon the occurrence of an Event of Default, Lender shall have the right, at its option, to draw on any Letter of Credit and to apply all or any part thereof to the payment of the items for which such Letter of Credit was established or to apply each such Letter of Credit to payment of the Debt in such order, proportion or priority as Lender may determine. Any such application to the Debt shall be subject to the Yield Maintenance Premium. On the Effective Maturity Date, any such Letter of Credit may be applied to reduce the Debt

6.10.2 **Additional Rights of Lender**. In addition to any other right Lender may have to draw upon a Letter of Credit pursuant to the terms and conditions of this Agreement, Lender shall have the additional rights to draw in full any Letter of Credit: (a) with respect to any evergreen Letter of Credit, if Lender has received a notice from the issuing bank that the Letter of Credit will not be renewed and a substitute Letter of Credit is not provided at least thirty (30) days prior to the date on which the outstanding Letter of Credit is scheduled to expire; (b) with respect to any Letter of Credit with a stated expiration date, if Lender has not received a notice from the issuing bank that it has renewed the Letter of Credit at least thirty (30) days prior to the date on which such Letter of Credit is scheduled to expire and a substitute Letter of Credit is not provided at least thirty (30) days prior to the date on which the outstanding Letter of Credit is scheduled to expire; (c) upon receipt of notice from the issuing bank that the Letter of Credit will be terminated (except if the termination of such Letter of Credit is permitted pursuant to the terms and conditions of this Agreement or a substitute Letter of Credit is provided); or (d) if Lender has received notice that the bank issuing the Letter of Credit shall cease to be an Eligible Institution and a substitute Letter of Credit is not provided within thirty (30) days of such notice. Notwithstanding anything to the contrary contained in the above, Lender is not obligated to draw any Letter of Credit upon the happening of an event specified in (a), (b), (c) or (d) above and shall not be liable for any losses sustained by Borrower due to the insolvency of the bank issuing the Letter of Credit if Lender has not drawn the Letter of Credit.

VII. OPERATING LEASES AND PROPERTY MANAGEMENT

Section 7.1 Hotel Leases.

(a) Borrower shall use its reasonable best efforts to cause each Hotel Lessee to operate the related Individual Property in accordance with the Hotel Lease. Borrower shall diligently perform and observe all of the terms, covenants and conditions of the Hotel Lease on the part of Borrower to be performed and observed and shall promptly notify Lender of any notice received by Borrower of any default in the performance or observance of any of the terms, covenants or conditions of the Hotel Lease on the part of Borrower to be performed and observed. If Borrower shall default in the performance or observance of any material term, covenant or condition of any Hotel Lease on the part of Borrower to be performed or observed, then, without limiting Lender’s other rights or remedies under this Agreement or the other Loan Documents, and without waiving or releasing Borrower from any of its obligations hereunder or under the Hotel Leases, Lender shall have the right, but shall be under no obligation, to pay any sums and to perform any act as may be appropriate to cause all the material terms, covenants and conditions of such Hotel Lease on the part of Borrower to be performed or observed.

(b) Each Hotel Lessee shall be a single purpose, bankruptcy remote entity pursuant to applicable Rating Agency criteria and Borrower shall deliver to Lender an acceptable nonconsolidation opinion with respect to each Hotel Lessee. The Hotel Leases shall each be subordinate to the related Mortgage and shall provide that they may be terminated without penalty to Lender, at Lender's option, upon foreclosure of the related Mortgage or delivery of a deed in lieu of foreclosure. The obligations of the Hotel Lessees under each Hotel Lease shall be secured by security interests in all accounts receivable, reserve accounts (including any working capital reserve) and other personal property (including furniture, fixtures and equipment) owned or leased by the related Hotel Lessee and the Borrower shall assign such Hotel Lease and grant such security interests to the Lender as additional collateral for the Borrower's obligations under the Loan.

(c) Except as expressly provided below, Borrower shall not consent to or enter into any of the following transactions, or any combination thereof, unless it has received written confirmation from the Rating Agencies that such transaction or combination thereof will not result in a qualification, downgrade or withdrawal of the then current ratings assigned to the Securities: (i) the surrender of any Hotel Lease, (ii) the assignment by any Hotel Lessee of its interest under a Hotel Lease, (iii) the termination or cancellation of a Hotel Lease, (iv) the modification, change, supplement, alteration or amendment of a Hotel Lease (other than (A) amendments which result in an increase in Hotel Lease Rent without imposing any additional obligations on the related Individual Borrower and (B) amendments which permit the temporary abatement of Hotel Lease Rent during alterations, provided such abatement does not exceed one and one-half percent (1 1/2%) of the annual Hotel Lease Rent for all of the Individual Properties for the immediately preceding twelve (12) month period and the only additional material obligation imposed on the related Individual Borrower is the obligation to fund such alterations), (v) the change, replacement or termination of a Hotel Lease or (vi) the entering into of any new Hotel Lease. Notwithstanding anything to the contrary contained herein, but subject to the first sentence of this clause (c), (x) in the event any Individual Borrower desires to terminate a Hotel Lease and to enter into a replacement Hotel Lease with a wholly-owned subsidiary of Host or in the event that a Hotel Lessee desires to assign its interests in the related Hotel Lease to a wholly-owned subsidiary of Host, (1) the identity of such subsidiary as the replacement Hotel Lessee will not be a consideration in the confirmation of the ratings and (2) the terms of any new Hotel Lease will not be a consideration in the confirmation of the ratings, provided that such Hotel Lease is a Permitted Replacement Lease and (y) in the event of a material default by a Hotel Lessee under a Hotel Lease and the related Individual Borrower desires to terminate such Hotel Lease, the termination of such Hotel Lease (without the appointment of a new Hotel Lessee) will not be a consideration in the confirmation of the ratings, provided that the cash management procedures set forth in such Hotel Lease and the Loan Documents with respect to such Individual Property remain unchanged except that all amounts that were previously deposited in the related Tenant Deposit Account are deposited in a newly-created Eligible Account in which Lender has a perfected security interest and further provided that any monies payable to the Hotel Lessee may be payable to Borrower. Notwithstanding anything herein contained to the contrary, Borrower shall be permitted, without any such written confirmation from the Rating Agencies or the approval of Lender, to make any non-material modification, change, supplement, alteration or amendment to any Hotel Lease and to waive any non material rights thereunder (provided that any required consent of the Manager has been obtained and no such modification, change, supplement, alteration or amendment shall affect the subordination of such Hotel Lease, the timing of payments under such Hotel Lease, the single purpose bankruptcy-remote covenants of the Hotel Lessee, the restrictions on such Hotel Lessee's ability to incur Indebtedness, the definition of defaults or "Gross Revenues" thereunder or the cash management procedures set forth in the Hotel Lease or the Loan Documents or reduce the Hotel Lease Rent or otherwise affect the Hotel Lessee's obligations to Lender).

(d) With respect to each of the Hotel Leases existing as of the date hereof, Borrower hereby represents and warrants as follows:

(i) No Hotel Lease Rent has been paid more than one (1) month in advance of its due date. All work required to be performed by Borrower prior to the Closing Date under each Hotel Lease has been performed as required in all material respects and any free rent, partial rent, rebate of rent or other payments, credits, allowances or abatements required to be given by Borrower to any Hotel Lessee relating to a period ending on or before the Closing Date has already been received by such Hotel Lessee. There are no prior assignments of the Hotel Leases or any portion of the Hotel Lease Rents due and payable or to become due and payable which are presently outstanding, except in connection with indebtedness to be repaid in full from the proceeds of the Loan concurrently with the Closing Date.

(ii) Each Hotel Lease is in full force and effect and, to the best of Borrower's knowledge, there is no default, breach or violation existing thereunder by Borrower or, to the best of Borrower's knowledge, any other party thereto and, to the best of Borrower's knowledge, no event has occurred that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation by any party thereunder. Each Hotel Lease, and the terms and provisions thereof, are subordinate to this Agreement and the related Mortgage. In the event any one Hotel Lessee operates more than one Individual Property, each related Hotel Lease is and shall be cross defaulted with the Hotel Leases covering any of the other Properties entered into with such Hotel Lessee.

Section 7.2 Management Agreements.

(a) Borrower shall diligently perform and observe all of the terms, covenants and conditions of the Management Agreement on the part of Borrower to be performed and observed and shall promptly notify Lender of any notice received by Borrower of any default in the performance or observance of any of the terms, covenants or conditions of the Management Agreement on the part of Borrower, the related Manager or the related Hotel Lessee to be performed and observed. If Borrower shall default in the performance or observance of any material term, covenant or condition of any Management Agreement on the part of Borrower to be performed or observed, then, without limiting Lender's other rights or remedies under this Agreement or the other Loan Documents, and without waiving or releasing Borrower from any of its obligations hereunder or under the Management Agreements, Lender shall have the right, but shall be under no obligation, to pay any sums and to perform any act as may be appropriate to cause all the material terms, covenants and conditions of such Management Agreement on the part of Borrower to be performed or observed.

(b) Each Management Agreement entered into after the date hereof shall be subordinate to the related Mortgage and shall provide that it may be terminated at Lender's option upon the occurrence of any of the following: (i) an Event of Default, or (ii) a Manager's fraud, gross negligence or willful misconduct. With respect to any Management Agreement that is not subordinate by its terms, Lender shall control all of the related Individual Borrower's rights under such Management Agreement (subject to the terms of the applicable Hotel Lease), including, without limitation, any right to terminate the Manager. If required by a Management Agreement, Lender shall provide a nondisturbance agreement for the benefit of such Manager satisfactory to Lender. Each such Management Agreement entered into after the date hereof shall provide that such Management Agreement will not be amended, modified or terminated without the consent of Lender.

(c) Except as expressly provided below, Borrower shall not consent to or enter into any of the following transactions, or any combination thereof, unless it has received the prior consent of Lender, which consent shall not be unreasonably withheld if the term thereof expires prior to the expiration date of the related Hotel Lease, and written confirmation from the Rating Agencies that such transaction or combination thereof will not result in a qualification, downgrade or withdrawal of the then current ratings assigned to the Securities: (i) the surrender of any Management Agreement, (ii) the assignment by any Manager of its interest under a Management Agreement, (iii) the termination or cancellation of a Management Agreement, (iv) the modification, change, supplement, alteration or amendment of a Management Agreement, (v) the change, replacement or termination of a Manager or (vi) the entering into of any new Management Agreement. Notwithstanding anything to the contrary contained herein, (x) Borrower shall be permitted, without such written confirmation from the Rating Agencies or the approval of Lender, to extend the current Management Agreements with Hyatt for the Hyatt Hotels for an original term that does not extend beyond the year 2022 and with no more than two (2) extension periods of not more than ten (10) years each and otherwise upon terms and conditions no less favorable, in the aggregate, to Borrower than the current Management Agreements, (y) Borrower shall be permitted, without any such written confirmation from the Rating Agencies or the approval of Lender, to make any non-material modification, change, supplement, alteration or amendment to any Management Agreement and to waive any non material rights thereunder (provided that no such modification, change, supplement, alteration, amendment or waiver shall affect the cash management procedures set forth in the Management Agreement or the Loan Documents, decrease the cash flow of the subject Individual Property, adversely affect the marketability of the subject Individual Property, change the definitions of "default" or "event of default", change the definition of "operating expense" to add additional items to such definition, change the definitions of "owners distribution" or "owner's remittance" or words of similar meaning so as to reduce the payments due Borrower thereunder, change the timing of remittances to Owner thereunder, increase reserve requirements, change the term of such Management Agreement or increase the management fees payable under such Management Agreement) and (z) Lender shall approve any replacement Manager that is a Qualified Manager.

(d) Each Management Agreement is in full force and effect and, to the best of Borrower's knowledge (i) there is no default, breach or violation existing thereunder by any party thereto and (ii) no event has occurred that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation by any party thereunder.

(e) Borrower shall be entitled to utilize the cash management procedures set forth in the Deposit Account Agreements only for so long as the existing Managers continue to manage the related Individual Properties. In the event any Individual Property is managed by a Person other than the existing Manager, Borrower shall be required to enter into new cash management procedures for such Individual Properties similar to the procedures that are currently in place with respect to the Swissôtels on the date hereof or such other cash management procedures that are acceptable to Lender in its sole discretion.

VIII. TRANSFERS

Section 8.1 Restrictions on Transfers.

Without the prior consent of Lender, neither Borrower nor any other Person having an ownership or beneficial interest, direct or indirect, in any Individual Borrower or any SPC Party shall (a) directly or indirectly sell, transfer, convey, mortgage, pledge, or assign any Individual Properties, any part thereof or any interest therein (including any ownership interest in any Individual Borrower or any SPC Party); (b) further encumber, alienate, grant a Lien or grant any other interest in any Individual Property or any part thereof (including any ownership interest in any Individual Borrower and any SPC Party), whether voluntarily or involuntarily except for Permitted Encumbrances; or (c) enter into any easement or other agreement granting material rights in or restricting the material use or development of any Individual Property. Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of Default in order to declare the Debt immediately due and payable upon Borrower’s violation of the restrictions set forth in this Section 8.1. This provision shall apply to every sale, transfer, conveyance, mortgage, pledge or assignment of each Individual Property or interest in any Individual Borrower or any SPC Party regardless of whether voluntary or not, or whether or not Lender has consented to any previous sale, transfer, conveyance, mortgage, pledge or assignment.

Section 8.2 Permitted Transfer of Property.

Notwithstanding the restrictions on transfers of the Individual Properties set forth in Section 8.1 above, Lender shall not withhold its consent to the conveyance of all Individual Properties to one or more Permitted Transferees provided that (a) prior to a Securitization, such Permitted Transferee or Permitted Transferees is or are acceptable to Lender in its sole and absolute discretion and, after a Securitization, Lender has received a confirmation in writing from the applicable Rating Agencies that the conveyance of the Individual Properties to such Permitted Transferee or Permitted Transferees will not result in a downgrading, withdrawal or qualification of the respective rating in effect immediately prior to such conveyance for the Securities issued in connection with a Securitization, (b) Lender has received an agreement, acceptable to it in its sole discretion, pursuant to which such Permitted Transferee or Permitted Transferees assume all of Borrower’s obligations under the Loan Documents, and (c) Lender shall have received such documents, certificates and legal opinions as it may reasonably request. In the event that all of the Individual Properties owned by any Individual Borrower are so transferred, such Individual Borrower shall be released from its obligations under the Loan arising from and after the date of such transfer. Notwithstanding anything to the contrary contained herein or in any other Loan Document, Borrowers may, without Lender’s consent, transfer personal property (including FF&E) to the extent reasonably necessary in order for HMC to satisfy the gross income tests applicable to REITs, subject to the condition that such personal property remains subject to Lender's security interest. Notwithstanding anything to the contrary contained herein, Lender hereby consents to (a) the pledge by Host of its interests in HMC Swiss Holdings LLC and Host La Jolla LLC and the pledge by Host La Jolla LLC of its interests in Times Square LLC pursuant to the terms and conditions of that certain Credit Agreement dated as of June 19, 1999 among HMC, Host, Bankers Trust Company, Credit Lyonnais New York Branch, The Bank of Nova Scotia and Wells Fargo Bank National Association, as amended and restated through the date hereof and (b) the pledge by HTKG Development Associates Limited Partnership of its interest in HMC Burlingame Hotel LLC pursuant to the terms and conditions of that certain pledge and security agreement of even date herewith securing a loan made by Host in the approximate principal amount of $35,000,000.

Section 8.3 Permitted Transfers of Interest in Borrower.

Notwithstanding the restrictions on transfers of ownership interests set forth in Section 8.1 above, Borrower may permit transfers of ownership interests in any Individual Borrower (a) to Host or a wholly owned subsidiary of Host or Person wholly owned by Host and HMC or a wholly owned subsidiary of HMC, provided that Lender receives a non-consolidation opinion acceptable to it and the Rating Agencies if more than forty-nine percent (49%) in the aggregate of interests in such Individual Borrower are owned by any Person that owned less than a forty-nine percent (49%) interest in such Individual Borrower as of the Closing Date, or (b) to any other Person, provided that (i) the transferee is approved by Lender in its reasonable discretion, (ii) if, after giving effect to the transfer and all prior transfers, more than ten percent (10%) of the interests in any Individual Borrower are held by an affiliated group, Lender receives a non-consolidation opinion acceptable to it and (iii) the Rating Agencies confirm in writing that the proposed transfer will not result in a qualification, downgrade or withdrawal of its then current rating on any Securities. Additionally, the restrictions on transfers of ownership interest set forth in Section 8.1 above shall not apply to (1) the issuance, sale, transfer or pledge of publicly or privately traded shares of HMC or (2) the issuance, transfer or pledge of limited partnership interests in Host (whether common or preferred), provided that HMC shall at all times be and remain the general partner of Host and have the right and power to direct the management, policies and day-to-day business and affairs of Host.

IX. SALE AND SECURITIZATION OF MORTGAGES

Section 9.1 Sale of Mortgage and Securitization.

(a) Lender shall have the right (i) to sell or otherwise transfer the Loan as a whole loan, (ii) to sell participation interests in the Loan or (iii) to securitize the Loan in one or more single asset securitizations or pooled loan securitizations. (The transactions referred to in clauses (i), (ii) and (iii) shall hereinafter be referred to collectively as "**Secondary Market Transactions**" and the transactions referred to in clause (iii) shall hereinafter be referred to as a "**Securitization**". Any certificates, notes or other securities issued in connection with a Securitization are hereinafter referred to as "**Securities**"). Lender agrees that it shall not close any Securitization prior to (15) days following the Closing Date.

(b) If requested by Lender, Borrower shall assist Lender in satisfying the market standards to which Lender customarily adheres or which may be reasonably required in the marketplace or by the Rating Agencies in connection with any Secondary Market Transactions, including, without limitation, to:

(i) (A) provide updated financial and other information with respect to the Individual Properties, the business operated at the Individual Properties, Borrower and the Manager, (B) provide updated budgets relating to the Individual Properties and (C) provide updated appraisals, market studies, environmental reviews (Phase I's and, if appropriate, Phase II's), property condition reports and other due diligence investigations of the Individual Properties in connection with any Securitization that occurs more than one (1) year after the date hereof (the "**Updated Information**"), together, if customary, with appropriate verification of the Updated Information through letters of auditors or opinions of counsel acceptable to Lender and the Rating Agencies; provided, however, that Lender will use its reasonable best efforts to limit the circumstances in which Borrower will be required to duplicate its efforts or third party costs in complying with the foregoing requirements;

(ii) provide opinions of counsel, which may be relied upon by Lender, the Rating Agencies and their respective counsel, agents and representatives, as to non-consolidation and true sale or any other opinion required by the Rating Agencies with respect to the Individual Properties and Borrower and Affiliates, which counsel and opinions shall be satisfactory to Lender and the Rating Agencies;

(iii) provide updated, as of the closing date of the Secondary Market Transaction, representations and warranties made in the Loan Documents and such additional representations and warranties as the Rating Agencies may require and as are customary in Secondary Market Transactions and as are consistent with the facts covered by such representations and warranties as they exist as of the date thereof; and

(iv) execute amendments to the Loan Documents and Borrower's organizational documents reasonably requested by Lender and that are customary in Secondary Market Transactions; provided, however, that Borrower shall not be required to modify or amend any Loan Document if such modification or amendment would (A) change the interest rate, the stated maturity or the amortization of principal as set forth herein or in the Note, or (B) modify or amend any other material economic term of the Loan.

(c) If requested by Lender, Borrower shall provide Lender with the following financial statements:

(i) (A) Audited financial statements for the Marriott Marquis for 1996, 1997 and 1998 prepared in accordance with GAAP, (B) Audited financial statements for all Individual Properties other than the Marriott Marquis for 1998 prepared in accordance with GAAP and (C) unaudited financial statements for all Individual Properties other than the Marriott Marquis for 1996 and 1997.

(ii) Borrower certified balance sheet and statements of income and expense and cash flow of the Borrower prepared in accordance with GAAP for the current year through the most recent fiscal quarter ending more than forty-five (45) days prior to the date of pricing of the Securitization.

(iii) Unaudited accrual based income statements for the Individual Properties (as if prepared in accordance with GAAP) for each quarter of 1999 through and including the most recent fiscal quarter ending more than forty-five (45) days prior to the date of pricing of the Securitization.

(iv) Upon five (5) Business Days after notice from Lender in connection with the Securitization of this Loan, such additional financial statements, such that, as of the date (each a "**Disclosure Document Date**") of each Disclosure Document, Borrower shall have provided Lender with all financial statements as described above; provided that the Fiscal Year and interim periods for which such financial statements shall be provided shall be determined as of such Disclosure Document Date.

Section 9.2 Securitization Indemnification.

(a) Borrower understands that information provided to Lender by Borrower and its agents, counsel and representatives may be included in disclosure documents in connection with the Securitization, including, without limitation, an offering circular, a prospectus, prospectus supplement, private placement memorandum or other offering document (each, a "**Disclosure Document**") and may also be included in filings with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), or the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), and may be made available to investors or prospective investors in the Securities, the Rating Agencies, and service providers relating to the Securitization.

(b) Borrower agrees to provide in connection with each of (i) a preliminary and a final private placement memorandum or (ii) a preliminary and final prospectus or prospectus supplement, as applicable, an agreement (A) certifying that Borrower has examined such Disclosure Documents specified by Lender and that each such Disclosure Document, as it relates to Borrower, Borrower Affiliates, Individual Properties, Manager and all other aspects of the Loan, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, (B) indemnifying Lender (and for purposes of this Section 9.2, Lender hereunder shall include its officers and directors), the Affiliate of Morgan Stanley Dean Witter & Co. ("**Morgan Stanley**") that has filed the registration statement relating to the Securitization (the "**Registration Statement**"), each of its directors, each of its officers who have signed the Registration Statement and each Person that controls the Affiliate within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, the "**Morgan Stanley Group**"), and Morgan Stanley, Deutsche Bank Securities Inc. and any other placement agent or underwriter with respect to the Securitization, each of their respective directors and each Person who controls Morgan Stanley, Deutsche Bank Securities Inc. or any other placement agent or underwriter within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act (collectively, the "**Underwriter Group**") for any losses, claims, damages or liabilities (collectively, the "**Liabilities**") to which Lender, the Morgan Stanley Group or the Underwriter Group may become subject insofar as the Liabilities arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such sections or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated in such sections or necessary in order to make the statements in such sections, in light of the circumstances under which they were made, not misleading and (C) agreeing to reimburse Lender, the Morgan Stanley Group and/or the Underwriter Group for any legal or other expenses reasonably incurred by Lender, the Morgan Stanley Group and the Underwriter Group in connection with investigating or defending the Liabilities; provided, however, that Borrower will be liable in any such case under clauses (B) or (C) above only to the extent that (i) Borrower shall have had an opportunity to review, comment on and approve the relevant section of the Disclosure Document and that any such loss claim, damage or liability arises out of or is based upon any such untrue statement or omission made therein in reliance upon and in conformity with information furnished to Lender by or on behalf of Borrower in connection with the preparation of the Disclosure Document or in connection with the underwriting or closing of the Loan, including, without limitation, financial statements of Borrower, operating statements, rent rolls, appraisals, market studies, environmental site assessment reports and property condition reports with respect to the Individual Properties and (ii) Borrower will not be liable for any omission of a material fact if information containing such material fact is provided to Lender and designated by Borrower for inclusion in a Disclosure Document, but is not actually included in such Disclosure Document. This indemnity agreement will be in addition to any liability which Borrower may otherwise have.

(c) In connection with Exchange Act Filings, Borrower shall (i) indemnify Lender, the Morgan Stanley Group and the Underwriter Group for Liabilities to which Lender, the Morgan Stanley Group or the Underwriter Group may become subject insofar as the Liabilities arise out of or are based upon the omission or alleged omission to state in the Disclosure Document a material fact required to be stated in the Disclosure Document in order to make the statements in the Disclosure Document, in light of the circumstances under which they were made, not misleading and (ii) reimburse Lender, the Morgan Stanley Group or the Underwriter Group for any legal or other expenses reasonably incurred by Lender, the Morgan Stanley Group or the Underwriter Group in connection with defending or investigating the Liabilities; provided, however, that Borrower will not be liable for any omission of a material fact if information containing such material fact is provided to Lender and designated by Borrower for inclusion in a Disclosure Document, but is not actually included in such Disclosure Document.

(d) Promptly after receipt by an indemnified party under the agreement referred to in Section 9.2(b) above of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under the agreement referred to in Section 9.2(b) above, notify the indemnifying party in writing of the commencement thereof, but the omission to so notify the indemnifying party will not relieve the indemnifying party from any liability which the indemnifying party may have to any indemnified party hereunder except to the extent that failure to notify causes prejudice to the indemnifying party. In the event that any action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled, jointly with any other indemnifying party, to participate therein and, to the extent that it (or they) may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel satisfactory to such indemnified party. After notice from the indemnifying party to such indemnified party under the agreement referred to in Section 9.2(b) above, such indemnified party shall pay for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there are any legal defenses available to it and/or other indemnified parties that are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assert such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party at the cost of the indemnifying party. The indemnifying party shall not be liable for the expenses of more than one separate counsel unless an indemnified party shall have reasonably concluded that there may be legal defenses available to it that are different from or additional to those available to another indemnified party.

(e) In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in Section 9.2(b) or (c) is for any reason held to be unenforceable as to an indemnified party in respect of any losses, claims, damages or liabilities (or action in respect thereof) referred to therein which would otherwise be indemnifiable under Section 9.2(b) or (c), the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses, claims, damages or liabilities (or action in respect thereof); provided, however, that no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. In determining the amount of contribution to which the respective parties are entitled, the following factors shall be considered: (i) Morgan Stanley's and Borrower's relative knowledge and access to information concerning the matter with respect to which the claim was asserted; (ii) the opportunity to correct and prevent any statement or omission; and (iii) any other equitable considerations appropriate in the circumstances. Lender and Borrower hereby agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation.

(f) The liabilities and obligations of both Borrower and Lender under this Section 9.2 shall survive the termination of this Agreement and the satisfaction and discharge of the Debt.

Section 9.3 Rating Surveillance.

Borrower will retain the Rating Agencies to provide rating surveillance services on any certificates issued in a Securitization. Such rating surveillance will be at the expense of Borrower (such expense, the "**Rating Surveillance Charge**").

X. DEFAULTS

Section 10.1 Event of Default.

(a) Each of the following events shall constitute an event of default hereunder (an "**Event of Default**"):

(i) if any payment of principal or interest is not paid when due; provided that it shall not be an Event of Default if a monthly Debt Service payment or other monthly payment is not paid on the Debt Service Payment Date if (a) sufficient funds are in the Monthly Debt Service Account (as defined in the Cash Management Agreement) to make such payment on the Debt Service Payment Date in question and (b) such payment is made on the next Business Day following such Debt Service Payment Date;

(ii) if any of the Taxes or Other Charges are not paid when due; provided that with respect to Taxes it shall not be an Event of Default if (a) sufficient Tax Funds for the payment of such Taxes were on deposit pursuant to Section 6.2 hereof on the date such Taxes were due and (b) such payment is made on the next Business Day following such date;

(iii) if the Policies are not kept in full force and effect; provided that it shall not be an Event of Default if (a) sufficient Insurance Premium Funds for the payment of such Insurance Premiums were on deposit pursuant to Section 6.3 hereof on the date such Insurance Premiums were due and (b) such payment is made on the next Business Day following such date;

(iv) if Borrower breaches or permits or suffers a breach of any covenant contained in Section 2.8, Section 3.1.24, Section 4.2.12 or Section 8.1 of this Agreement, or if Borrower applies any Rent or Hotel Rent in a manner inconsistent with this Agreement or any other Loan Document;

(v) if any representation or warranty made by Borrower herein or in any other Loan Document, or in any report, certificate, financial statement or other instrument, agreement or document furnished to Lender shall have been false or misleading in any material respect as of the date the representation or warranty was made;

(vi) if Borrower or Guarantor shall make an assignment for the benefit of creditors;

(vii) if a receiver, liquidator or trustee shall be appointed for Borrower or Guarantor or if Borrower or Guarantor shall be adjudicated a bankrupt or insolvent, or if any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Borrower or Guarantor, or if any proceeding for the dissolution or liquidation of Borrower or Guarantor shall be instituted; provided, however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Borrower or Guarantor, upon the same not being discharged, stayed or dismissed within sixty (60) days;

(viii) if Borrower attempts to assign its rights under this Agreement or any of the other Loan Documents or any interest herein or therein in contravention of the Loan Documents;

(ix) if any of the assumptions contained in the Insolvency Opinion, or in any other non-consolidation opinion delivered to Lender in connection with the Loan, or in any other non-consolidation delivered subsequent to the closing of the Loan, is or shall become untrue in any material respect;

(x) if Borrower shall continue to be in Default under any of the other terms, covenants or conditions of this Agreement not specified in subsections (i) to (ix) above, for ten (10) days after notice to Borrower from Lender, in the case of any Default which can be cured by the payment of a sum of money, or for thirty (30) days after notice from Lender in the case of any other Default or any other Default that does not provide for a specific cure period; provided, however, that if such non-monetary Default is susceptible of cure but cannot reasonably be cured within such 30-day period and provided further that Borrower shall have commenced to cure such Default within such 30-day period and thereafter diligently and expeditiously proceeds to cure the same, as evidenced by an Officer's Certificate certifying as to same, such 30-day period shall be extended for such time as is reasonably necessary for Borrower in the exercise of due diligence to cure such Default, such additional period not to exceed ninety (90) days;

(xi) if there shall be a default under any of the other Loan Documents beyond any applicable cure periods contained in such documents, whether as to Borrower, Guarantor or any of the Individual Properties, or if any other such event shall occur or condition shall exist, if the effect of such event or condition is to accelerate the maturity of any portion of the Debt or to permit Lender to accelerate the maturity of all or any portion of the Debt;

(xii) if there shall occur any default by Borrower as tenant under the Ground Lease in the observance or performance of any term, covenant or condition of the Ground Lease on the part of Borrower to be observed or performed, and said default is not cured prior to the expiration of any applicable grace period therein provided, or if any one or more of the events referred to in the Ground Lease shall occur which would cause the Ground Lease to terminate or which would entitle the ground lessor to terminate the Ground Lease or, unless Borrower acquires the fee estate of the lessor, if the leasehold estate created by the Ground Lease shall be surrendered or the Ground Lease terminated or canceled for any reason or under any circumstances whatsoever, or if Borrower shall fail to exercise the Purchase Option by January 1, 2017; or

(xiii) if there shall be a default by Host (or such other creditworthy Affiliate of Borrower that provides the Host Commitment) under the Host Commitment.

(b) Upon the occurrence of an Event of Default (other than an Event of Default described in clauses (vi), (vii) or (viii) above) and at any time thereafter Lender may, in addition to any other rights or remedies available to it pursuant to this Agreement and the other Loan Documents or at law or in equity, take such lawful action, without notice or demand, that Lender deems advisable to protect and enforce its rights against Borrower and in and to all or any of the Individual Properties, including, without limitation, declaring the Debt to be immediately due and payable, and Lender may enforce or avail itself of any or all rights or remedies provided in the Loan Documents against Borrower and any or all of the Individual Properties, including, without limitation, all rights or remedies available at law or in equity; and upon any Event of Default described in clauses (vi), (vii) or (viii) above, the Debt and all other obligations of Borrower hereunder and under the other Loan Documents shall immediately and automatically become due and payable, without notice or demand, and Borrower hereby expressly waives any such notice or demand, anything contained herein or in any other Loan Document to the contrary notwithstanding.

Section 10.2 Remedies.

(a) Upon the occurrence of an Event of Default, all or any one or more of the rights, powers, privileges and other remedies available to Lender against Borrower under this Agreement or any of the other Loan Documents executed and delivered by, or applicable to, Borrower or at law or in equity may be exercised by Lender at any time and from time to time, whether or not all or any of the Debt shall be declared due and payable, and whether or not Lender shall have commenced any foreclosure proceeding or other action for the enforcement of its rights and remedies under any of the Loan Documents with respect to all or any of the Individual Properties. Any such actions taken by Lender shall be cumulative and concurrent and may be pursued independently, singly, successively, together or otherwise, at such time and in such order as Lender may determine in its sole discretion, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Lender permitted by law, equity or contract or as set forth herein or in the other Loan Documents. Without limiting the generality of the foregoing, Borrower (to the extent permitted by applicable law) agrees that if an Event of Default is continuing (i) Lender is not subject to any "one action" or "election of remedies" law or rule, and (ii) all liens and other rights, remedies or privileges provided to Lender shall remain in full force and effect until Lender has exhausted all of its remedies against the Individual Properties and each Mortgage has been foreclosed, sold and/or otherwise realized upon in satisfaction of the Debt or the Debt has been paid in full.

(b) With respect to Borrower and the Individual Properties, nothing contained herein or in any other Loan Document shall be construed as requiring Lender to resort to any Individual Property for the satisfaction of any of the Debt in preference or priority to any other Individual Property, and Lender may seek satisfaction out of all of the Individual Properties or any part thereof, in its absolute discretion in respect of the Debt. In addition, Lender shall have the right from time to time to partially foreclose the Mortgages in any manner and for any amounts secured by the Mortgages then due and payable as determined by Lender in its sole discretion including, without limitation, the following circumstances: (i) in the event Borrower defaults beyond any applicable grace period in the payment of one or more scheduled payments of principal and interest, Lender may foreclose one or more of the Mortgages to recover such delinquent payments, or (ii) in the event Lender elects to accelerate less than the entire outstanding principal balance of the Loan, Lender may foreclose one or more of the Mortgages to recover so much of the principal balance of the Loan as Lender may accelerate and such other sums secured by one or more of the Mortgages as Lender may elect. Notwithstanding one or more partial foreclosures, the Individual Properties shall remain subject to the Mortgages to secure payment of sums secured by the Mortgages and not previously recovered.

(c) Lender shall have the right from time to time to sever the Note and the other Loan Documents into one or more separate notes, mortgages and other security documents (the "**Severed Loan Documents**") in such denominations as Lender shall determine in its sole discretion for purposes of evidencing and enforcing its rights and remedies provided hereunder. Borrower shall execute and deliver to Lender from time to time, promptly after the request of Lender, a severance agreement and such other documents as Lender shall request in order to effect the severance described in the preceding sentence, all in form and substance reasonably satisfactory to Lender and Borrower. Borrower hereby absolutely and irrevocably appoints Lender as its true and lawful attorney, coupled with an interest, in its name and stead to make and execute all documents necessary or desirable to effect the aforesaid severance, Borrower ratifying all that its said attorney shall do by virtue thereof; provided, however, Lender shall not make or execute any such documents under such power until three (3) Business Days after notice has been given to Borrower by Lender of Lender's intent to exercise its rights under such power. Except as may be required in connection with a securitization pursuant to Section 9.1 hereof, (i) Borrower shall not be obligated to pay any costs or expenses incurred in connection with the preparation, execution, recording or filing of the Severed Loan Documents, and (ii) the Severed Loan Documents shall not contain any representations, warranties or covenants not contained in the Loan Documents and any such representations and warranties contained in the Severed Loan Documents will be given by Borrower only as of the Closing Date.

(d) Any amounts recovered from any Individual Property or any other collateral for the Loan after an Event of Default may be applied by Lender toward the payment of any interest and/or principal of the Components and/or any other amounts due under the Loan Documents in such order, priority and proportions as Lender in its sole discretion shall determine.

Section 10.3 Remedies Cumulative.

The rights, powers and remedies of Lender under this Agreement shall be cumulative and not exclusive of any other right, power or remedy which Lender may have against Borrower pursuant to this Agreement or the other Loan Documents, or existing at law or in equity or otherwise. Lender's rights, powers and remedies may be pursued singly, concurrently or otherwise, at such time and in such order as Lender may determine in Lender's sole discretion. No delay or omission to exercise any remedy, right or power accruing upon an Event of Default shall impair any such remedy, right or power or shall be construed as a waiver thereof, but any such remedy, right or power may be exercised from time to time and as often as may be deemed expedient. A waiver of one Default or Event of Default with respect to Borrower shall not be construed to be a waiver of any subsequent Default or Event of Default by Borrower or to impair any remedy, right or power consequent thereon.

XI. MISCELLANEOUS

Section 11.1 Successors and Assigns.

All covenants, promises and agreements in this Agreement, by or on behalf of Borrower, shall inure to the benefit of the legal representatives, successors and assigns of Lender.

Section 11.2 Lender's Discretion.

Whenever pursuant to this Agreement or any other Loan Document Lender exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Lender, the decision of Lender to approve or disapprove or to decide whether arrangements or terms are satisfactory or not satisfactory shall (except as is otherwise specifically herein provided) be in the sole discretion of Lender and shall be final and conclusive. Whenever pursuant to this Agreement or any other Loan Document (a) the Rating Agencies are given any right to approve or disapprove, (b) confirmation is required from the Rating Agencies that an action will not result in the downgrade, qualification or withdrawal of the ratings in a Securitization or (c) any arrangement or term is to be satisfactory to the Rating Agencies, the approval of Lender shall be substituted therefore prior to a Securitization and may be based upon, among other things, Lender's determination of Rating Agency criteria.

Section 11.3 Governing Law.

(A) THIS AGREEMENT WAS NEGOTIATED IN THE STATE OF NEW YORK, AND MADE BY LENDER AND ACCEPTED BY BORROWER IN THE STATE OF NEW YORK, AND THE PROCEEDS OF THE NOTE DELIVERED PURSUANT HERETO WERE DISBURSED FROM THE STATE OF NEW YORK, WHICH STATE THE PARTIES AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY, AND IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO PRINCIPLES OF CONFLICT LAWS) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA, EXCEPT THAT AT ALL TIMES THE PROVISIONS FOR THE CREATION, PERFECTION, AND ENFORCEMENT OF THE LIENS AND SECURITY INTERESTS CREATED PURSUANT HERETO AND PURSUANT TO THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAW OF THE STATE IN WHICH THE APPLICABLE INDIVIDUAL PROPERTY IS LOCATED, IT BEING UNDERSTOOD THAT, TO THE FULLEST EXTENT PERMITTED BY THE LAW OF SUCH STATE, THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE CONSTRUCTION, VALIDITY AND ENFORCEABILITY OF ALL LOAN DOCUMENTS AND ALL OF THE OBLIGATIONS ARISING HEREUNDER OR THEREUNDER. TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS AGREEMENT AND THE NOTE, AND THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

(B) ANY LEGAL SUIT, ACTION OR PROCEEDING AGAINST LENDER OR BORROWER ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY AT LENDER'S OPTION BE INSTITUTED IN ANY FEDERAL OR STATE COURT IN THE CITY OF NEW YORK, COUNTY OF NEW YORK, PURSUANT TO SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW AND BORROWER WAIVES ANY OBJECTIONS WHICH IT MAY NOW OR HEREAFTER HAVE BASED ON VENUE AND/OR FORUM NON CONVENIENS OF ANY SUCH SUIT, ACTION OR PROCEEDING, AND BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT IN ANY

SUIT, ACTION OR PROCEEDING. BORROWER DOES HEREBY DESIGNATE AND APPOINT:

The Prentice-Hall Corporation, Inc.
80 State Street
Albany, New York 12207-2543

AS ITS AUTHORIZED AGENT TO ACCEPT AND ACKNOWLEDGE ON ITS BEHALF SERVICE OF ANY AND ALL PROCESS WHICH MAY BE SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY FEDERAL OR STATE COURT IN NEW YORK, NEW YORK, AND AGREES THAT SERVICE OF PROCESS UPON SAID AGENT AT SAID ADDRESS AND WRITTEN NOTICE OF SAID SERVICE MAILED OR DELIVERED TO BORROWER IN THE MANNER PROVIDED HEREIN SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON BORROWER IN ANY SUCH SUIT, ACTION OR PROCEEDING IN THE STATE OF NEW YORK. BORROWER (I) SHALL GIVE PROMPT NOTICE TO LENDER OF ANY CHANGED ADDRESS OF ITS AUTHORIZED AGENT HEREUNDER, (II) MAY AT ANY TIME AND FROM TIME TO TIME DESIGNATE A SUBSTITUTE AUTHORIZED AGENT WITH AN OFFICE IN NEW YORK, NEW YORK (WHICH SUBSTITUTE AGENT AND OFFICE SHALL BE DESIGNATED AS THE PERSON AND ADDRESS FOR SERVICE OF PROCESS), AND (III) SHALL PROMPTLY DESIGNATE SUCH A SUBSTITUTE IF ITS AUTHORIZED AGENT CEASES TO HAVE AN OFFICE IN NEW YORK, NEW YORK OR IS DISSOLVED WITHOUT LEAVING A SUCCESSOR.

Section 11.4 Modification, Waiver in Writing.

No modification, amendment, extension, discharge, termination or waiver of any provision of this Agreement or of any other Loan Document, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in a writing signed by the party against whom enforcement is sought, and then such waiver or consent shall be effective only in the specific instance, and for the purpose, for which given. Except as otherwise expressly provided herein, no notice to, or demand on Borrower, shall entitle Borrower to any other or future notice or demand in the same, similar or other circumstances.

Section 11.5 Delay Not a Waiver.

Neither any failure nor any delay on the part of Lender in insisting upon strict performance of any term, condition, covenant or agreement, or exercising any right, power, remedy or privilege hereunder, or under any other Loan Document, shall operate as or constitute a waiver thereof, nor shall a single or partial exercise thereof preclude any other future exercise, or the exercise of any other right, power, remedy or privilege. In particular, and not by way of limitation, by accepting payment after the due date of any amount payable under this Agreement or any other Loan Document, Lender shall not be deemed to have waived any right either to require prompt payment when due of all other amounts due under this Agreement or the other Loan Documents, or to declare a default for failure to effect prompt payment of any such other amount.

Section 11.6 Notices.

All notices, demands, requests, consents, approvals or other communications (any of the foregoing, a "**Notice**") required, permitted, or desired to be given hereunder shall be in writing sent by telefax (with answer back acknowledged) or by registered or certified mail, postage prepaid, return receipt requested or delivered by hand or reputable overnight courier addressed to the party to be so notified at its address hereinafter set forth, or to such other address as such party may hereafter specify in accordance with the provisions of this Section 11.6. Any Notice shall be deemed to have been received three (3) days after the date such Notice is mailed or on the date of sending by telefax or delivery by hand or the next Business Day if sent by an overnight commercial courier addressed to the parties as follows:

If to Lender:	Morgan Stanley Mortgage Capital Inc. 1585 Broadway 38th Floor New York, New York 10036 Attention: James Flaum & Kevin Swartz Facsimile No. (212) 761-0524
and	Bankers Trust Company 130 Liberty Street 25th Floor New York, New York 10006 Attn: Linda Wang Fax No.: (212) 669-0759
with a copy to:	Cadwalader, Wickersham & Taft 100 Maiden Lane New York, New York 10038 Attention: Fredric L. Altschuler, Esq. Facsimile No. (212) 504-6666
If to Borrower:	c/o Host Marriott Corporation Executive Offices 10400 Fernwood Road Bethesda, Maryland 20817-1109 Attn: Treasurer Fax No.: (301) 380-6338
with a copy to:	c/o Host Marriott Corporation Executive Offices 10400 Fernwood Road Bethesda, Maryland 20817-1109 Attn: General Counsel Fax No.: (301) 380-6332

Section 11.7 Trial by Jury.

BORROWER HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THE LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY BORROWER, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY BORROWER.

Section 11.8 Headings.

The Article and/or Section headings and the Table of Contents in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 11.9 Severability.

Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

Section 11.10 Preferences.

Lender shall have the continuing and exclusive right to apply or reverse and reapply any and all payments by Borrower to any portion of the obligations of Borrower hereunder. To the extent Borrower makes a payment or payments to Lender, which payment or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds received which are subsequently recovered from Lender, the obligations hereunder or part thereof intended to be satisfied shall be revived and continue in full force and effect, as if such payment or proceeds had not been received by Lender.

Section 11.11 Waiver of Notice.

Borrower shall not be entitled to any notices of any nature whatsoever from Lender except with respect to matters for which this Agreement or the other Loan Documents specifically and expressly provide for the giving of notice by Lender to Borrower and except with respect to other matters for which Borrower is not, pursuant to applicable Legal Requirements, permitted to waive the giving of notice. Borrower hereby expressly waives the right to receive any notice from Lender with respect to any matter for which this Agreement or the other Loan Documents do not specifically and expressly provide for the giving of notice by Lender to Borrower.

Section 11.12 Remedies of Borrower.

In the event that a claim or adjudication is made that Lender or its agents have acted unreasonably or unreasonably delayed acting in any case where, by law or under this Agreement or the other Loan Documents, Lender or such agent, as the case may be, has an obligation to act reasonably or promptly, Borrower agrees that neither Lender nor its agents shall be liable for any monetary damages, and Borrower's sole remedy shall be limited to commencing an action seeking injunctive relief or declaratory judgment. The parties hereto agree that any action or proceeding to determine whether Lender has acted reasonably shall be determined by an action seeking declaratory judgment. Notwithstanding the foregoing, in the event of a final non-appealable judicial determination that Lender or its agents have acted maliciously, have intentionally failed to act in good faith or have acted in bad faith, Borrower shall be entitled to compensatory damages arising therefrom.

Section 11.13 Expenses; Indemnity.

(a) Borrower covenants and agrees to pay or, if Borrower fails to pay, to reimburse Lender upon receipt of written notice from Lender, for all reasonable out of pocket costs and expenses (including reasonable attorneys' fees and disbursements) incurred by Lender in connection with (i) processing, underwriting, closing, marketing and securitizing the Loan including, but not limited to, fees and disbursements of Lender's counsel, costs of third party studies (including, without limitation, accounting, environmental, engineering, appraisal and insurance review), title insurance, mortgage tax and recordation and Rating Agency, master and special servicer and Trustee expenses; (ii) confirming Borrower's ongoing performance of and compliance with Borrower's agreements and covenants contained in this Agreement and the other Loan Documents on its part to be performed or complied with after the Closing Date, including, without limitation, confirming compliance with environmental and insurance requirements; (iii) Lender's ongoing performance of and compliance with all agreements and covenants contained in this Agreement and the other Loan Documents on its part to be performed or complied with after the Closing Date; (iv) the negotiation, preparation, execution, delivery and administration of any consents, amendments, waivers or other modifications to this Agreement and the other Loan Documents and any other documents or matters requested by Borrower; (v) the filing and recording fees and expenses, title insurance and reasonable fees and expenses of counsel for providing to Lender all required legal opinions, and other similar expenses incurred in creating and perfecting the Liens in favor of Lender pursuant to this Agreement and the other Loan Documents; (vi) enforcing or preserving any rights, in response to third party claims or the prosecuting or defending of any action or proceeding or other litigation against a third party, in each case against, under or affecting Borrower, this Agreement, the other Loan Documents, the Individual Properties, or any other security given for the Loan; and (vii) enforcing any obligations of or collecting any payments due from Borrower under this Agreement, the other Loan Documents or with respect to the Individual Properties or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or of any insolvency or bankruptcy proceedings; provided, however, that Borrower shall not be liable for the payment of any such costs and expenses to the extent the same arise by reason of the gross negligence, illegal acts, fraud or willful or reckless misconduct of Lender. Any costs due and payable to Lender may be paid from the Cash Management Account.

(b) Borrower shall indemnify, defend and hold harmless Lender from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for Lender in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not Lender shall be designated a party thereto), that may be imposed on or incurred by Lender in any manner relating to or arising out of (i) any breach by Borrower of its obligations under, or any material misrepresentation by Borrower contained in, this Agreement or the other Loan Documents, or (ii) the use or intended use of the proceeds of the Loan (collectively, the "**Indemnified Liabilities**"); provided, however, that Borrower shall not have any obligation to Lender hereunder to the extent that such Indemnified Liabilities arise from the gross negligence, bad faith, illegal acts, fraud or willful or reckless misconduct of Lender. To the extent that the undertaking to indemnify, defend and hold harmless set forth in the preceding sentence may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all Indemnified Liabilities incurred by Lender.

Section 11.14 Schedules Incorporated.

The Schedules annexed hereto are hereby incorporated herein as a part of this Agreement with the same effect as if set forth in the body hereof.

Section 11.15 Offsets, Counterclaims and Defenses.

Any assignee of Lender's interest in and to this Agreement and the other Loan Documents shall take the same free and clear of all offsets, counterclaims or defenses which are unrelated to such documents which Borrower may otherwise have against any assignor of such documents, and no such unrelated counterclaim or defense shall be interposed or asserted by Borrower in any action or proceeding brought by any such assignee upon such documents and any such right to interpose or assert any such unrelated offset, counterclaim or defense in any such action or proceeding is hereby expressly waived by Borrower.

Section 11.16 No Joint Venture or Partnership; No Third Party Beneficiaries.

(a) Borrower and Lender intend that the relationships created hereunder and under the other Loan Documents be solely that of borrower and lender. Nothing herein or therein is intended to create a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between Borrower and Lender nor to grant Lender any interest in the Individual Properties other than that of mortgagee, beneficiary or lender.

(b) This Agreement and the other Loan Documents are solely for the benefit of Lender and nothing contained in this Agreement or the other Loan Documents shall be deemed to confer upon anyone other than Lender any right to insist upon or to enforce the performance or observance of any of the obligations contained herein or therein. All conditions to the obligations of Lender to make the Loan hereunder are imposed solely and exclusively for the benefit of Lender and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to make the Loan in the absence of strict compliance with any or all thereof and no other Person shall under any circumstances be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Lender if, in Lender's sole discretion, Lender deems it advisable or desirable to do so.

Section 11.17 Publicity.

All news releases, publicity or advertising by Borrower or its Affiliates through any media (excluding any earnings releases, periodic financial reports and registration statements) intended to reach the general public which refers to the Loan Documents or the financing evidenced by the Loan Documents, to Lender, Morgan Stanley Mortgage Capital Inc. or any of their Affiliates shall be subject to the prior approval of Lender. Lender shall not make any press release (other than a tombstone) without the prior approval of Borrower, such approval not to be unreasonably withheld.

Section 11.18 Cross-Default; Cross-Collateralization; Waiver of Marshalling of Assets.

(a) Borrower acknowledges that Lender has made the Loan to Borrower upon the security of its collective interest in the Individual Properties and in reliance upon the aggregate of the Individual Properties taken together being of greater value as collateral security than the sum of the Individual Properties taken separately. Borrower agrees that the Mortgages are and will be cross-collateralized and cross-defaulted with each other so that (i) an Event of Default under any of the Mortgages shall constitute an Event of Default under each of the other Mortgages which secure the Note; (ii) an Event of Default under the Note or this Agreement shall constitute an Event of Default under each Mortgage; and (iii) each Mortgage shall constitute security for the Note as if a single blanket lien were placed on all of the Individual Properties as security for the Note.

(b) To the fullest extent permitted by law, Borrower, for itself and its successors and assigns, waives all rights to a marshalling of the assets of Borrower, Borrower's partners and others with interests in Borrower, and of the Individual Properties, or to a sale in inverse order of alienation in the event of foreclosure of all or any of the Mortgages, and agrees not to assert any right under any laws pertaining to the marshalling of assets, the sale in inverse order of alienation, homestead exemption, the administration of estates of decedents, or any other matters whatsoever to defeat, reduce or affect the right of Lender under the Loan Documents to a sale of the Individual Properties for the collection of the Debt without any prior or different resort for collection or of the right of Lender to the payment of the Debt out of the net proceeds of the Individual Properties in preference to every other claimant whatsoever. In addition, Borrower, for itself and its successors and assigns, to the extent permitted by applicable law, waives in the event of foreclosure of any or all of the Mortgages, any equitable right otherwise available to Borrower which would require the separate sale of the Individual Properties or require Lender to exhaust its remedies against any Individual Property or any combination of the

Individual Properties before proceeding against any other Individual Property or combination of Individual Properties; and further in the event of such foreclosure Borrower does hereby expressly consent to and authorize, at the option of Lender, the foreclosure and sale either separately or together of any combination of the Individual Properties.

Section 11.19 Waiver of Counterclaim.

Borrower hereby waives the right to assert a counterclaim, other than a compulsory counterclaim, in any action or proceeding brought against it by Lender or its agents.

Section 11.20 Conflict; Construction of Documents; Reliance.

In the event of any conflict between the provisions of this Agreement and any of the other Loan Documents, the provisions of this Agreement shall control. The parties hereto acknowledge that they were represented by competent counsel in connection with the negotiation, drafting and execution of the Loan Documents and that such Loan Documents shall not be subject to the principle of construing their meaning against the party which drafted same. Borrower acknowledges that, with respect to the Loan, Borrower shall rely solely on its own judgment and advisors in entering into the Loan without relying in any manner on any statements, representations or recommendations of Lender or any parent, subsidiary or Affiliate of Lender. Lender shall not be subject to any limitation whatsoever in the exercise of any rights or remedies available to it under any of the Loan Documents or any other agreements or instruments which govern the Loan by virtue of the ownership by it or any parent, subsidiary or Affiliate of Lender of any equity interest any of them may acquire in Borrower, and Borrower hereby irrevocably waives the right to raise any defense or take any action on the basis of the foregoing with respect to Lender's exercise of any such rights or remedies. Borrower acknowledges that Lender engages in the business of real estate financings and other real estate transactions and investments which may be viewed as adverse to or competitive with the business of Borrower or its Affiliates.

Section 11.21 Brokers and Financial Advisors.

Borrower hereby represents that it has dealt with no financial advisors, brokers, underwriters, placement agents, agents or finders in connection with the transactions contemplated by this Agreement. Borrower hereby agrees to indemnify, defend and hold Lender harmless from and against any and all claims, liabilities, costs and expenses of any kind (including Lender's reasonable attorneys' fees and expenses) in any way relating to or arising from a claim by any Person that such Person acted on behalf of Borrower in connection with the transactions contemplated herein. The provisions of this Section 11.21 shall survive the expiration and termination of this Agreement and the payment of the Debt.

Section 11.22 Prior Agreements.

This Agreement and the other Loan Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements among or between such parties, whether oral or written, including, without limitation, the Commitment Letter dated May 21, 1999 between Borrower and Lender, as amended, are superseded by the terms of this Agreement and the other Loan Documents.

Section 11.23 Servicer.

At the option of Lender, the Loan may be serviced by not more than two servicers (each, a "**Servicer**") selected by Lender and Lender may delegate all or any portion of its responsibilities under this Agreement and the other Loan Documents to such Servicers pursuant to servicing agreements (each, a "**Servicing Agreement**") between Lender and such Servicer. Borrower shall be responsible for any set-up fees or any other initial costs relating to or arising under any Servicing Agreement and Lender shall be responsible for the monthly servicing fee due to a Servicer under the related Servicing Agreement. Borrower shall be responsible for the costs of any special servicer under the Loan. Lender will consult with Borrower prior to selecting a Servicer, provided, however, that Borrower shall have no right to approve such Servicer. From and after the effective date of any Securitization, (a) the Servicer shall have all the rights of Lender herein with respect to the servicing of the Loan and (b) Borrower shall indemnify the Servicer upon the same terms that it is required to indemnify Lender herein.

Section 11.24 Exculpation.

Subject to the qualifications below, Lender shall not enforce the liability and obligation of Borrower to perform and observe the obligations contained in the Note, this Agreement, the Mortgages or the other Loan Documents by any action or proceeding against any member, shareholder, partner or other owner of Borrower, or any director, officer, employee of any of the foregoing. The provisions of this Section shall not, however, (a) constitute a waiver, release or impairment of any obligation evidenced or secured by any of the Loan Documents; or (b) affect the validity or enforceability of the Guaranty.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed by their duly authorized representatives, all as of the day and year first above written.

LENDER:

BANKERS TRUST COMPANY, a New York banking corporation

By: /s/ Laura S. Burwick

Name: Laura S. Burwick
Title: Principal

BORROWER:

BRE/SWISS L.L.C., a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC CAMBRIDGE LLC, a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC RESTON LLC, a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC BURLINGAME HOTEL LLC, a
Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC TIMES SQUARE HOTEL LLC, a
Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

SCHEDULE I

PROPERTIES/ALLOCATED LOAN AMOUNTS/ ALLOCATED PERCENTAGE/ORIGINAL APPRAISED VALUE

PROPERTY	ALLOCATED LOAN AMOUNT	ALLOCATED PERCENTAGE	ORIGINAL APPRAISED VALUE
Marriott Marquis New York, New York	$ 271,000,000	40.8%	$ 671,500,000
Drake Swissôtel New York, New York	$ 74,500,000	11.2%	$ 155,000,000
San Francisco Hyatt Burlingame, California	$ 76,000,000	11.4%	$ 158,000,000
Chicago Swissôtel Chicago, Illinois	$ 64,500,000	9.7%	$ 142,000,000
Cambridge Hyatt Cambridge, Mass.	$ 54,000,000	8.1%	$ 117,000,000
Reston Hyatt Reston, Virginia	$ 50,000,000	7.5%	$ 116,300,000
Boston Swissôtel Boston, Mass	$ 38,000,000	5.7%	$ 98,000,000
Atlanta Swissôtel Atlanta, Georgia	$ 37,000,000	5.6%	$ 79,700,000

SCHEDULE II

REQUIRED REPAIRS

PROPERTY	REQUIRED REPAIR	DEPOSIT	DEADLINE FOR COMPLETION
Marriott Marquis New York, New York	Roof Pavers Add Visual Fire Alarms to Existing Audible Alarms Provide Roll-in Showers in Nine Rooms	$ 0	February 1, 2000
Drake Swissôtel New York, New York	Remediation of soil and ground petroleum contaminants	$ 350,000	N/A (until regulatory closure is issued)
	Repair Two Cooling Towers Repair Gas Pressure to Rooftop HVAC Equipment Directional Signage to 2nd Floor Toilet and Health Club Modifications to Second Floor Toilet Rooms	$ 0	February 1, 2000
San Francisco Hyatt Burlingame, California	Install Automatic Doors at Front Entrance Install Four Roll-in Showers	$ 0	February 1, 2000
Chicago Swissôtel Chicago, Illinois	Plaza Waterproofing Bathroom Strobes and Horns	$ 0	February 1, 2000
Cambridge Hyatt Cambridge, Mass.	Repair Garage Inspect/Repair Façade Repair Wallboard in Atrium Replace Skylight Base in Health Club Install Signage in Parking Lot Modify Lavatory Apron in Guest Room Install Toilet Seat Adaptor Remount 20” Toilet Seats Install Speaker Phones in Elevators Remount Elevator Call Buttons Install/Upgrade Visual/Audio Alarms	$ 0	February 1, 2000
Reston Hyatt Reston, Virginia	Repair/Replace Lights-Penthouse Roof Miscellaneous Repairs to Parking Garage Replace Bollards Protecting Sprinkler Brick Façade Repairs at Spandrel Levels Repair Vertical Corner Cracks and Caulk Windows Repair Two Cooling Towers Modifications to Public Toilet Rooms Add Speaker Phones to Parking Garage Elevators	$ 0	February 1, 2000
Boston Swissôtel Boston, Mass	Install Roll-in Shower Modify Lavatory Apron in Guest Room Replace Basins in Guest Room Install Speaker Phones in Lobby Elevators	$ 0	February 1, 2000
Atlanta Swissôtel Atlanta, Georgia	Install Van-Accessible Parking Space	$ 0	February 1, 2000

SCHEDULE III

HOTEL LEASES

PROPERTY	BORROWER	HOTEL LESSEE	HOTEL LEASE
Marriott Marquis New York, New York	HMC Times Square Hotel LLC	CCMH Times Square LLC	Lease Agreement dated December 31, 1998
Drake Swissôtel New York, New York	BRE/Swiss L.L.C.	CCSH New York LLC	Lease Agreement dated as of December 31, 1998
San Francisco Hyatt Burlingame, California	HMC Burlingame Hotel LLC	CCHH Burlingame LLC	Lease Agreement dated as of December 31, 1998
Chicago Swissôtel Chicago, Illinois	BRE/Swiss L.L.C.	CCSH Chicago LLC	Lease Agreement dated as of December 31, 1998
Cambridge Hyatt Cambridge, Mass.	HMC Cambridge LLC	CCHH Cambridge LLC	Lease Agreement dated as of December 31, 1998
Reston Hyatt Reston, Virginia	HMC Reston LLC	CCHH Reston LLC	Lease Agreement dated as of December 31, 1998
Boston Swissôtel Boston, Mass	BRE/Swiss L.L.C.	CCSH Boston LLC	Lease Agreement dated as of December 31, 1998
Atlanta Swissôtel Atlanta, Georgia	BRE/Swiss L.L.C.	CCSH Atlanta LLC	Lease Agreement dated as of December 31, 1998

SCHEDULE IV

MANAGEMENT AGREEMENTS

PROPERTY	BORROWER	MANAGER	MANAGEMENT AGREEMENT
Marriott Marquis New York, New York	HMC Times Square Hotel LLC	Marriott International, Inc.	Second Restated and Amended Management Agreement, dated July 8, 1999 and effective as of July 2, 1999, as amended by amended and restated Consent, Assignment and Assumption and Amendment of Management Agreement dated as of July 8, 1999
Drake Swissôtel New York, New York	BRE/Swiss L.L.C.	Swissôtel Management (USA) L.L.C.	Hotel Management Agreement dated as of August 1, 1997, as assigned by Consent, Assignment and Assumption Agreement dated as of December 22, 1998
San Francisco Hyatt Burlingame, California	HMC Burlingame Hotel LLC	Hyatt Corporation	Amended and Restated Management Agreement dated as of November 30, 1995, as amended by Consent, Assignment and Assumption and Amendment of Management Agreement dated as of December 30, 1998.
Chicago Swissôtel Chicago, Illinois	BRE/Swiss L.L.C.	Swissôtel Management (USA) L.L.C.	Hotel Management Agreement dated as of August 1, 1997, as assigned by Consent, Assignment and Assumption Agreement dated as of December 22, 1998
Cambridge Hyatt Cambridge, Mass.	HMC Cambridge LLC	Hyatt Corporation	Amended and Restated Management Agreement dated as of August 1, 1996, as assigned by Consent, Assignment and Assumption and Amendment of Management Agreement dated as of December 30, 1998

Reston Hyatt Reston, Virginia	HMC Reston LLC	Hyatt Corporation	Management Agreement dated as of June 20, 1988, as assigned by Assignment dated November 25, 1996, as assigned by Consent, Assignment and Assumption and Amendment of Management Agreement dated as of December 30, 1998
Boston Swissôtel Boston, Mass	BRE/Swiss L.L.C.	Swissôtel Management (USA) L.L.C.	Hotel Management Agreement dated as of August 1, 1997, as assigned by a Consent, Assignment and Assumption Agreement dated as of December 22, 1998
Atlanta Swissôtel Atlanta, Georgia	BRE/Swiss L.L.C.	Swissôtel Management (USA) L.L.C.	Hotel Management Agreement dated as of August 1, 1997, as assigned by Consent, Assignment and Assumption Agreement dated as of December 22, 1998

Exhibit 4.24

FIRST AMENDMENT TO LOAN AGREEMENT

THIS FIRST AMENDMENT TO LOAN AGREEMENT, dated as of August 18, 1999 (this "First Amendment"), between BRE/SWISS L.L.C., a Delaware limited liability company, HMC CAMBRIDGE LLC, a Delaware limited liability company, HMC RESTON LLC, a Delaware limited liability company, HMC BURLINGAME HOTEL LLC, a Delaware limited liability company and HMC TIMES SQUARE HOTEL LLC, a Delaware \ limited liability company, each having an address c/o Host Marriott Corporation, 10400 Fernwood Road, Bethesda, Maryland 20817-1109 (collectively, "Borrower"), BANKERS TRUST COMPANY, a New York banking corporation, having an address at 130 Liberty Street, 25th Floor, New York, New York 10006 ("Bankers Trust") and MORGAN STANLEY MORTGAGE CAPITAL INC., a New York corporation, having an address at 1585 Broadway, New York, New York 10036 ("Morgan Stanley" and together with Bankers Trust, "Lender").

W I T N E S S E T H:

WHEREAS, Borrower and Bankers Trust are parties to that certain Loan Agreement dated as of July 8, 1999 (the "Loan Agreement"), pursuant to which Bankers Trust made a loan to Borrower (the "Loan") in the original principal amount of $665,000,000;

WHEREAS, Bankers Trust has assigned to Morgan Stanley a fifty percent (50%) undivided interest in the Loan; and

WHEREAS, Lender and Borrower have agreed in the manner hereinafter set forth to modify the terms of the Loan Agreement.

NOW, THEREFORE, in pursuance of such agreement and for good and valuable consideration, Borrower and Lender hereby agree as follows:

1. Borrower acknowledges that Lender has elected pursuant to Section 2.3.3 of the Loan Agreement to change the Maturity Date from the Maturity Date stated in the Loan Agreement to the date of the Effective Maturity Date stated in the Loan Agreement. Accordingly, all references to the Maturity Date in the Loan Agreement shall hereafter mean August 1, 2009, and all provisions of Loan Documents Includes CMA with respect to periods after the Effective Maturity Date shall no longer apply.

2. The definitions of "Component B-1", "Component B-l Rate", "Component B-2" and "Component B-2 Rate", as set forth in Article I of the Loan Agreement, are deleted in their entirety.

3. The definitions of Component A Rate, Component C Rate, Component D Rate, Component E Rate, Component F Rate and Component G Rate, as set forth in Article I of the Loan Agreement, are each deleted in their entirety and the following substituted therefor:

"**Component A Rate**" shall mean a rate per annum equal to 6.99125%.

"**Component C Rate**" shall mean a rate per annum equal to 7.74125%.

"**Component D Rate**" shall mean a rate per annum equal to 7.98125%.

"**Component E Rate**" shall mean a rate per annum equal to 8.08125%.

"**Component F Rate**" shall mean a rate per annum equal to 8.32125 %.

"**Component G Rate**" shall mean a rate per annum equal to 7.53794%.

4. The definition of "Component C", as set forth in Article I of the Loan Agreement, is deleted in its entirety and the following substituted therefor:

"**Component C**" shall mean that portion of the Loan in the amount of Fifty-Six Million Four Hundred Seventy-Five Thousand and No/100 Dollars ($56,475,000) made by Lender to Borrower pursuant to this Agreement.

5. The following defined terms are hereby added to Article I of the Loan Agreement:

"**Component B**" shall mean that portion of the Loan in the amount of One Hundred Seventy-Four Million Eight Hundred Sixty-Two Thousand Eight Hundred Ninety-Five and No/100 Dollars ($174,862,895) made by Lender to Borrower pursuant to this Agreement.

"**Component B Rate**" shall mean a rate per annum equal to 7.31125%.

6. The definition of "Adjusted Interest Rate", as set forth in Article I of the Loan Agreement, is deleted in its entirety and the following substituted therefor:

"**Adjusted Interest Rate**" shall mean: (a) with respect to Component A, a rate per annum equal to the greater of (i) the Component A Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (b) with respect to Component B, a rate per annum equal to the greater of (i) the Component B Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (c) with respect to Component, a rate per annum equal to the greater of (i) the Component C Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (d) with respect to Component D, a rate per annum equal to the greater of (i) the Component D Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (e) with respect to Component E, a rate per annum equal to the greater of (i) the Component E Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%), (f) with respect to Component F, a rate per annum equal to the greater of (i) the Component F Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%) and (g) with respect to Component G, a rate per annum equal to the greater of (i) the Component G Rate plus five percentage points (5%) or (ii) the Treasury Rate plus five percentage points (5%).

7. The definition of “Components”, as set forth in Article I of the Loan Agreement, is deleted in its entirety and the following substituted therefor:

“**Components**” shall mean, collectively, Component A, Component B, Component C, Component D, Component E, Component F and Component G.

8. The definition of “Initial Interest Rate”, as set forth in Article I of the Loan Agreement, is deleted in its entirety and the following substituted therefor:

“**Initial Interest Rate**” shall mean (a) with respect to Component A, the Component A Rate, (b) with respect to Component B, the Component B Rate, (c) with respect to Component C, the Component C Rate, (d) with respect to Component D, the Component D Rate, (e) with respect to Component E, the Component E Rate, (f) with respect to Component F, the Component F Rate and (g) with respect to Component G, the Component G Rate.

9. Notwithstanding the provisions of Section 6.7.1 of the Loan Agreement to the contrary, Borrower shall be required to make deposits of Marquis Option Funds if the Debt Service Coverage Ratio or the loan to value ratio tests have not been satisfied as of the Determination Date, even if Borrower has obtained an extension of the term of the Ground Lease or delivered a Host Commitment. The amount of the deposits will be calculated based upon the then-current rate of return on the Permitted Investment selected by Borrower at such time. Borrower shall be entitled to a credit for any Marquis Option Funds previously deposited with Lender and, in the event that the amount of Marquis Option Funds previously deposited with Lender exceeds the amount that would be required based upon the then-current rate of return on the Permitted Investment selected by Borrower, such excess shall be returned to Borrower.

10. Schedule VIII of the Loan Agreement is deleted in its entirety and replaced with the Schedule VIII attached to this First Amendment.

11. As amended by this First Amendment, all terms, covenants and provisions of the Loan Agreement and the other Loan Documents shall remain in full force and effect as first written.

12. Unless otherwise defined in this First Amendment, terms defined in the Loan Agreement shall have their defined meanings when used herein.

13. This First Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, each of which shall be an original and all of which taken together shall constitute one and the same instrument.

14. This First Amendment shall inure to the benefit of and be binding upon Borrower and Lender, and their respective successors and assigns.

15. This First Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed by their duly authorized representatives, all as of the day and year first above written.

BORROWER:

BRE/SWISS L.L.C., a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC CAMBRIDGE LLC, a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC RESTON LLC, a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC BURLINGAME HOTEL LLC, a Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

HMC TIMES SQUARE HOTEL LLC, a
Delaware limited liability company

By: /s/ W. Edward Walter

Name: W. Edward Walter
Title: Vice President

LENDER:

MORGAN STANLEY MORTGAGE
CAPITAL INC., a New York corporation

By: /s/ Shirish B. Godbole

Name: Shirish B. Godbole
Title: VP

BANKERS TRUST COMPANY, a New York
banking corporation

By: /s/ Laura Burwick

Name: Laura Burwick
Title: Director

HOST MARRIOTT CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(in millions, except ratio amounts)

	2004	2003	2002	2001	2000
Income (loss) from operations before income taxes	$ (74)	$(251)	$ (67)	$ 15	$ (4)
Add (deduct):					
Fixed charges	574	606	576	569	539
Capitalized interest	(3)	(2)	(2)	(8)	(8)
Amortization of capitalized interest	6	6	6	7	6
Minority interest in consolidated affiliates	4	5	7	23	72
Net (gains) losses related to certain 50% or less owned affiliates	16	22	9	(3)	(27)
Distributions from equity investments	6	3	6	9	1
Dividends on preferred stock	(37)	(37)	(37)	(32)	(20)
Issuance costs of redeemed Class A	(4)	—	—	—	—
Adjusted earnings	$488	$ 352	$498	$580	$559
Fixed charges:					
Interest on indebtedness and amortization of deferred financing costs	$483	$ 488	$458	$451	$432
Capitalized interest	3	2	2	8	8
Dividends on convertible preferred securities of subsidiary trust	—	32	32	32	32
Dividends on preferred stock	37	37	37	32	20
Issuance costs of redeemed Class A	4	—	—	—	—
Portion of rents representative of the interest factor	47	47	47	46	47
Total fixed charges and preferred stock dividends	$574	$ 606	$576	$569	$539
Ratio of earnings to fixed charges and preferred stock dividends	—	—	—	1.0	1.0
Deficiency of earnings to fixed charges and preferred stock dividends	$ (86)	$(254)	$ (78)	—	—

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
1)	Airport Hotels LLC	Delaware
2)	Ameliatel, a Florida GP	Florida
3)	Atlanta II Limited Partnership	Delaware
4)	Beachfront Properties, Inc.	Virgin Islands
5)	BRE/Swiss L.L.C.	Delaware
6)	Calgary Charlotte Holdings Company	Nova Scotia
7)	Calgary Charlotte Partnership	Alberta, Canada
8)	CB Realty Sales, Inc.	Delaware
9)	CBM One Holdings LLC	Delaware
10)	CCC CMBS Corporation	Delaware
11)	CCES Chicago LLC	Delaware
12)	CCFH Maui LLC	Delaware
13)	CCFS Atlanta LLC	Delaware
14)	CCFS Philadelphia LLC	Delaware
15)	CCHH Atlanta LLC	Delaware
16)	CCHH Burlingame LLC	Delaware
17)	CCHH Cambridge LLC	Delaware
18)	CCHH Maui LLC	Delaware
19)	CCHH Reston LLC	Delaware
20)	CCHI Singer Island LLC	Delaware
21)	CCMH Atlanta Marquis LLC	Delaware
22)	CCMH Atlanta NW LLC	Delaware
23)	CCMH Atlanta Suites LLC	Delaware
24)	CCMH Bethesda LLC	Delaware
25)	CCMH Charlotte LLC	Delaware
26)	CCMH Chicago CY LLC	Delaware
27)	CCMH Copley LLC	Delaware
28)	CCMH Coronado LLC	Delaware
29)	CCMH Costa Mesa Suites LLC	Delaware
30)	CCMH Dallas/FW LLC	Delaware
31)	CCMH DC LLC	Delaware
32)	CCMH Deerfield Suites LLC	Delaware
33)	CCMH Denver SE LLC	Delaware
34)	CCMH Denver Tech LLC	Delaware
35)	CCMH Denver West LLC	Delaware
36)	CCMH Diversified LLC	Delaware
37)	CCMH Downer’s Grove Suites LLC	Delaware
38)	CCMH Dulles AP LLC	Delaware
39)	CCMH Dulles Suites LLC	Delaware
40)	CCMH Farmington LLC	Delaware
41)	CCMH Fin Center LLC	Delaware
42)	CCMH Fisherman’s Wharf LLC	Delaware
43)	CCMH Ft. Lauderdale LLC	Delaware
44)	CCMH Gaithersburg LLC	Delaware
45)	CCMH Hanover LLC	Delaware
46)	CCMH Houston AP LLC	Delaware
47)	CCMH Houston Galleria LLC	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
48)	CCMH IHP LLC	Delaware
49)	CCMH Jacksonville LLC	Delaware
50)	CCMH Kansas City AP LLC	Delaware
51)	CCMH Key Bridge LLC	Delaware
52)	CCMH Lenox LLC	Delaware
53)	CCMH Manhattan Beach LLC	Delaware
54)	CCMH Marina LLC	Delaware
55)	CCMH McDowell LLC	Delaware
56)	CCMH Memphis LLC	Delaware
57)	CCMH Metro Center LLC	Delaware
58)	CCMH Miami AP LLC	Delaware
59)	CCMH Minneapolis LLC	Delaware
60)	CCMH Moscone LLC	Delaware
61)	CCMH Nashua LLC	Delaware
62)	CCMH Newark LLC	Delaware
63)	CCMH Newport Beach LLC	Delaware
64)	CCMH Newport Beach Suites LLC	Delaware
65)	CCMH Newton LLC	Delaware
66)	CCMH Norcross LLC	Delaware
67)	CCMH Norfolk LLC	Delaware
68)	CCMH O’Hare AP LLC	Delaware
69)	CCMH O’Hare Suites LLC	Delaware
70)	CCMH Oklahoma LLC	Delaware
71)	CCMH Ontario AP LLC	Delaware
72)	CCMH Orlando LLC	Delaware
73)	CCMH Palm Desert LLC	Delaware
74)	CCMH Park Ridge LLC	Delaware
75)	CCMH Pentagon RI LLC	Delaware
76)	CCMH Perimeter LLC	Delaware
77)	CCMH Philadelphia AP LLC	Delaware
78)	CCMH Philadelphia Mkt. LLC	Delaware
79)	CCMH Plaza San Antonio LLC	Delaware
80)	CCMH Portland LLC	Delaware
81)	CCMH Potomac LLC	Delaware
82)	CCMH Properties II LLC	Delaware
83)	CCMH Quorum LLC	Delaware
84)	CCMH Raleigh LLC	Delaware
85)	CCMH Riverwalk LLC	Delaware
86)	CCMH Rocky Hill LLC	Delaware
87)	CCMH Romulus	Delaware
88)	CCMH Salt Lake LLC	Delaware
89)	CCMH San Diego LLC	Delaware
90)	CCMH San Fran AP LLC	Delaware
91)	CCMH Santa Clara LLC	Delaware
92)	CCMH Scottsdale Suites LLC	Delaware
93)	CCMH South Bend LLC	Delaware
94)	CCMH Tampa AP LLC	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
95)	CCMH Tampa Waterside LLC	Delaware
96)	CCMH Tampa Westshore LLC	Delaware
97)	CCMH Times Square LLC	Delaware
98)	CCMH Torrance LLC	Delaware
99)	CCMH Waterford LLC	Delaware
100)	CCMH Westfields LLC	Delaware
101)	CCMH Williamsburg LLC	Delaware
102)	CCRC Amelia Island LLC	Delaware
103)	CCRC Atlanta LLC	Delaware
104)	CCRC Buckhead/Naples LLC	Delaware
105)	CCRC Dearborn LLC	Delaware
106)	CCRC Marina LLC	Delaware
107)	CCRC Naples Golf LLC	Delaware
108)	CCRC Phoenix LLC	Delaware
109)	CCRC San Francisco LLC	Delaware
110)	CCRC Tysons LLC	Delaware
111)	CCSH Atlanta LLC	Delaware
112)	CCSH Boston LLC	Delaware
113)	CCSH Chicago LLC	Delaware
114)	CCSH New York LLC	Delaware
115)	Chesapeake Financial Services LLC	Delaware
116)	Chesapeake Hotel Limited Partnership	Delaware
117)	CHLP Finance LP	Delaware
118)	City Center Hotel Limited Partnership	Minnesota
119)	City Center Interstate Partnership LLC	Delaware
120)	CLDH Meadowvale, Inc.	Ontario
121)	CLMH Airport Inc.	Ontario
122)	CLMH Calgary Inc.	Ontario
123)	CLMH Eaton Centre Inc.	Ontario
124)	Davis Realty LLC	Delaware
125)	DS Hotel LLC	Delaware
126)	Durbin LLC	Delaware
127)	East Side Hotel Associates, L.P.	Delaware
128)	Elcrisa S.A. de C.V.	Mexico
129)	Farrell's Ice Cream Parlour Restaurants LLC	Delaware
130)	Fernwood Atlanta Corporation	Delaware
131)	Fernwood Holdings LLC	Delaware
132)	Fernwood Hotel Assets, Inc.	Delaware
133)	Fernwood Hotel LLC	Delaware
134)	G.L. Insurance Corporation	Hawaii
135)	HMA Realty Limited Partnership	Delaware
136)	HMA-GP LLC	Delaware
137)	HMC Airport, Inc.	Delaware
138)	HMC Amelia I LLC	Delaware
139)	HMC Amelia II LLC	Delaware
140)	HMC AP Canada Company	Nova Scotia
141)	HMC AP GP LLC	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
142)	HMC AP LP	Delaware
143)	HMC Atlanta LLC	Delaware
144)	HMC BCR Holdings LLC	Delaware
145)	HMC BN Corporation	Delaware
146)	HMC Burlingame Hotel LLC	Delaware
147)	HMC Burlingame II LLC	Delaware
148)	HMC Burlingame LLC	Delaware
149)	HMC Cambridge LLC	Delaware
150)	HMC Capital LLC	Delaware
151)	HMC Capital Resources LLC	Delaware
152)	HMC Charlotte (Calgary) Company	Nova Scotia
153)	HMC Charlotte GP LLC	Delaware
154)	HMC Charlotte LP	Delaware
155)	HMC Chicago LLC	Delaware
156)	HMC Copley LLC	Delaware
157)	HMC Desert LLC	Delaware
158)	HMC Diversified American Hotels, L.P.	Delaware
159)	HMC Diversified LLC	Delaware
160)	HMC DSM LLC	Delaware
161)	HMC Duna, Inc.	Delaware
162)	HMC East Side II LLC	Delaware
163)	HMC East Side LLC	Delaware
164)	HMC Gateway, Inc.	Delaware
165)	HMC Gateway LLC	Delaware
166)	HMC Georgia LLC	Delaware
167)	HMC Grace (Calgary) Company	Nova Scotia
168)	HMC Grand LLC	Delaware
169)	HMC Hanover LLC	Delaware
170)	HMC Hartford LLC	Delaware
171)	HMC Headhouse Funding LLC	Delaware
172)	HMC Host Atlanta, Inc.	Delaware
173)	HMC Host Restaurants LLC	Delaware
174)	HMC Hotel Development LLC	Delaware
175)	HMC Hotel Properties II Limited Partnership	Delaware
176)	HMC Hotel Properties Limited Partnership	Delaware
177)	HMC HPP LLC	Delaware
178)	HMC HT LLC	Delaware
179)	HMC IHP Holdings LLC	Delaware
180)	HMC JWDC GP LLC	Delaware
181)	HMC JWDC LLC	Delaware
182)	HMC Kea Lani LLC	Delaware
183)	HMC Lenox LLC	Delaware
184)	HMC MDAH One Corporation	Delaware
185)	HMC Manhattan Beach LLC	Delaware
186)	HMC Market Street LLC	Delaware
187)	HMC Maui LLC	Delaware
188)	HMC McDowell LLC	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
189)	HMC McDowell Mountains LLC	Delaware
190)	HMC Mexpark LLC	Delaware
191)	HMC MHP II, Inc.	Delaware
192)	HMC MHP II LLC	Delaware
193)	HMC Naples Golf, Inc.	Delaware
194)	HMC NGL LLC	Delaware
195)	HMC OLS I LLC	Delaware
196)	HMC OLS I LP	Delaware
197)	HMC OLS II LP	Delaware
198)	HMC OP BN LLC	Delaware
199)	HMC Pacific Gateway LLC	Delaware
200)	HMC Palm Desert LLC	Delaware
201)	HMC Park Ridge II LLC	Delaware
202)	HMC Park Ridge LLC	Delaware
203)	HMC Park Ridge LP	Delaware
204)	HMC Partnership Properties LLC	Delaware
205)	HMC PLP LLC	Delaware
206)	HMC Polanco LLC	Delaware
207)	HMC Potomac LLC	Delaware
208)	HMC Properties I LLC	Delaware
209)	HMC Properties II LLC	Delaware
210)	HMC Property Leasing LLC	Delaware
211)	HMC Reston LLC	Delaware
212)	HMC Retirement Properties, L.P.	Delaware
213)	HMC SBM Two LLC	Delaware
214)	HMC Seattle LLC	Delaware
215)	HMC SFO LLC	Delaware
216)	HMC SPE Manager I Corp.	Delaware
217)	HMC Suites Limited Partnership	Delaware
218)	HMC Suites LLC	Delaware
219)	HMC Swiss Holdings LLC	Delaware
220)	HMC Times Square Hotel LLC	Delaware
221)	HMC Times Square Partner LLC	Delaware
222)	HMC Toronto Air Company	Nova Scotia
223)	HMC Toronto Airport GP LLC	Delaware
224)	HMC Toronto Airport LP	Delaware
225)	HMC Toronto EC Company	Delaware
226)	HMC Toronto EC GP LLC	Delaware
227)	HMC Toronto EC LP	Delaware
228)	HMC Waterford LLC	Delaware
229)	HMC/Interstate Manhattan Beach, L.P.	Delaware
230)	HMC/Interstate Waterford, L.P.	Delaware
231)	HMC/RGI Hartford, L.P.	Delaware
232)	HMH General Partner Holdings LLC	Delaware
233)	HMH HPT CBM LLC	Delaware
234)	HMH HPT RIBM LLC	Delaware
235)	HMH Marina LLC	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
236)	HMH Norfolk LLC	Delaware
237)	HMH Norfolk, L.P.	Delaware
238)	HMH Pentagon LLC	Delaware
239)	HMH Realty Company, Inc.	Delaware
240)	HMH Restaurants LLC	Delaware
241)	HMH Rivers L.P.	Delaware
242)	HMH Rivers LLC	Delaware
243)	HMH WTC LLC	Delaware
244)	HMT Lessee Parent LLC	Delaware
245)	HMT Lessee Sub (Atlanta) LLC	Delaware
246)	HMT Lessee Sub (Palm Desert) LLC	Delaware
247)	HMT Lessee Sub (Properties II) LLC	Delaware
248)	HMT Lessee Sub (Santa Clara) LLC	Delaware
249)	HMT Lessee Sub (SDM Hotel) LLC	Delaware
250)	HMT Lessee Sub I LLC	Delaware
251)	HMT Lessee Sub II LLC	Delaware
252)	HMT Lessee Sub III LLC	Delaware
253)	HMT Lessee Sub IV LLC	Delaware
254)	HMT SPE (Atlanta) Corporation	Delaware
255)	HMT SPE (Palm Desert) Corporation	Delaware
256)	HMT SPE (Properties II) Corporation	Delaware
257)	HMT SPE (Santa Clara) Corporation	Delaware
258)	Hanover Hotel Acquisition Corp.	Delaware
259)	Hopewell Associates, L.P.	Georgia
260)	Host DSM Limited Partnership	Delaware
261)	Host Hanover Hotel Corporation	Delaware
262)	Host Hanover Limited Partnership	Delaware
263)	Host La Jolla LLC	Delaware
264)	Host Marriott Financial Trust	Delaware
265)	Host Marriott, L.P.	Delaware
266)	Host of Boston, Ltd.	Massachusetts
267)	Host of Houston 1979	Texas
268)	Host of Houston Ltd.	Texas
269)	Host Park Ridge LLC	Delaware
270)	Host Properties, Inc.	Delaware
271)	Hotel Properties Management, Inc.	Delaware
272)	Hot Shoppes, Inc.	Delaware
273)	HTKG Development Associates Management Corporation	California
274)	IHP Holdings Partnership LP	Pennsylvania
275)	Ivy Street Hopewell LLC	Delaware
276)	Ivy Street Hotel Limited Partnership	Georgia
277)	Ivy Street LLC	Delaware
278)	JWDC Limited Partnership	Delaware
279)	Market Street Host LLC	Delaware
280)	Marriott Mexico City Partnership, G.P.	Delaware
281)	MDSM Finance LLC	Delaware
282)	MHP Acquisition Corp.	Delaware

HOST MARRIOTT CORPORATION

SUBSIDIARIES—(Continued)

	Company Name	Place of Incorporation
283)	MHP II Acquisition Corp.	Delaware
284)	MOHS Corporation	Delaware
285)	Mutual Benefit Chicago Suite Hotel Partners, L.P.	Rhode Island
286)	New Market Street LP	Delaware
287)	Pacific Gateway, Ltd.	California
288)	Philadelphia Airport Hotel Corporation	Pennsylvania
289)	Philadelphia Airport Hotel LLC	Delaware
290)	Philadelphia Airport Hotel Limited Partnership	Pennsylvania
291)	Philadelphia Market Street HMC Hotel Limited Partnership	Delaware
292)	Philadelphia Market Street Hotel Corporation	Pennsylvania
293)	Philadelphia Market Street Marriott Hotel II Limited Partnership	Delaware
294)	PM Financial LLC	Delaware
295)	PM Financial LP	Delaware
296)	Potomac Hotel Limited Partnership	Delaware
297)	PRM LLC	Delaware
298)	RIBM One LLC	Delaware
299)	RIBM Two LLC	Delaware
300)	Rockledge Bickford’s Family Fare, Inc.	Delaware
301)	Rockledge CBM Investor I, Inc.	Delaware
302)	Rockledge CBM Investor II, Inc	Delaware
303)	Rockledge CBM One Corporation	Delaware
304)	Rockledge Hanover LLC	Delaware
305)	Rockledge HMC BN LLC	Delaware
306)	Rockledge HMT LLC	Delaware
307)	Rockledge Hotel LLC	Delaware
308)	Rockledge Hotel Properties, Inc.	Delaware
309)	Rockledge Insurance Company (Cayman) Ltd.	Cayman Islands
310)	Rockledge Manhattan Beach LLC	Delaware
311)	Rockledge Minnesota LLC	Delaware
312)	Rockledge NY Times Square LLC	Delaware
313)	Rockledge Potomac LLC	Delaware
314)	Rockledge RIBM Two Corporation	Delaware
315)	Rockledge Riverwalk LLC	Delaware
316)	Rockledge Square 254 LLC	Delaware
317)	S.D. Hotels, Inc.	Delaware
318)	S.D. Hotels LLC	Delaware
319)	Santa Clara HMC LLC	Delaware
320)	Santa Clara Host Hotel Limited Partnership	Delaware
321)	Sparky’s Virgin Islands, Inc.	Delaware
322)	Timeport, L.P.	Georgia
323)	Times Square GP LLC	Delaware
324)	Times Square HMC Hotel, L.P.	New York
325)	Times Square LLC	Delaware
326)	Timewell Group, L.P.	Georgia
327)	Wellsford-Park Ridge HMC Hotel Limited Partnership	Delaware
328)	YBG Associates LLC	Delaware

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Host Marriott Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 333-31352, 333-93157, 333-78091, 333-40854, 333-51946, 333-98207 and 333-113901) on Form S-3 and (Nos. 333-75055, 333-28683, 333-75057, 333-75059 and 033-66622) on Form S-8 of Host Marriott Corporation of our reports dated February 23, 2005, with respect to the consolidated balance sheets of Host Marriott Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2004 and the related financial statement schedule, and with respect to management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, and the effectiveness of internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K of Host Marriott Corporation.

KPMG LLP
McLean, Virginia
March 1, 2005

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher J. Nassetta, certify that:

1. I have reviewed this annual report on Form 10-K of Host Marriott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 1, 2005

/s/ CHRISTOPHER J. NASSETTA

Christopher J. Nassetta
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Edward Walter, certify that:

1. I have reviewed this annual report on Form 10-K of Host Marriott Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 1, 2005

/s/ W. EDWARD WALTER

W. Edward Walter
Executive Vice President and Chief Financial Officer

EXHIBIT 32

<u>Section 906 Certification</u>

Certification of Chief Executive Officer and Chief Financial Officer

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Host Marriott Corporation (the “Company”) hereby certify, to such officers’ knowledge, that:

(i) the accompanying Annual Report of Form 10-K of the Company for the period ended December 31, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the securities Exchange Act of 1934, as amended;

and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 1, 2005

/s/ Christopher J. Nassetta

Christopher J. Nassetta
Chief Executive Officer

/s/ W. Edward Walter

W. Edward Walter
Chief Financial Officer