- ---
- ---

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] 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 Fiscal Year Ended December 31, 2000 Commission File No. 0-25087

HOST MARRIOTT, L.P.

Delaware	52-2095412
(State of Incorporation)	(I.R.S. Employer Identification Number)

10400 Fernwood Road
Bethesda, Maryland 20817
(301) 380-9000

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

Title of each class
Units of limited partnership interest (284,705,092 units outstanding as of March 12, 2001)

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, and (ii) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Document Incorporated by Reference
Notice of 2001 Annual Meeting and Proxy Statement of Host Marriott Corporation

- ---
- ---

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K and the information incorporated by reference herein include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. We identify forward-looking statements in this annual report and the information incorporated by reference herein by using words or phrases such as "anticipate", "believe", "estimate", "expect", "intend", "may be", "objective", "plan", "predict", "project" and "will be" and similar words or phrases, or the negative thereof.

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 any future results, performance or achievements expressed or implied by us in those statements include, among others, the following:

- national and local economic and business conditions that will affect, among other things, demand for products and services at our hotels and other properties, the level of room rates and occupancy that can be achieved by such properties and the availability and terms of financing;
- our ability to maintain the 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 structures;
- 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 or compliance with current debt covenants;
- changes in travel patterns, taxes and government regulations which influence or determine wages, prices, construction procedures and costs;
- government approvals, actions and initiatives including the need for compliance with environmental and safety requirements, and change in laws and regulations or the interpretation thereof;
- our ability to satisfy complex rules in order for us to qualify as a partnership for federal income tax purposes, for Host Marriott Corporation to qualify as a REIT for federal income tax purposes, and in order for HMT Lessee LLC to qualify as a taxable REIT subsidiary for federal income tax purposes, and our ability to operate effectively within the limitations imposed by these rules; and
- other factors discussed below under the heading "Risk Factors" and in other filings with the Securities and Exchange Commission.

Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this annual report on Form 10-K and the information incorporated by reference herein 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.

Items 1 & 2. Business and Properties

We are a limited partnership, or the "Operating Partnership," owning full service hotel properties. Our sole general partner is Host Marriott Corporation, or "Host REIT," a self-managed and self-administered real estate investment trust. We were formed as a Delaware limited partnership in 1998 as a wholly owned subsidiary of Host Marriott Corporation, a Delaware corporation, in connection with its efforts to reorganize its business operations to qualify as a real estate investment trust, or "REIT," for federal income tax purposes. As part of this reorganization, which we refer to as the REIT conversion, and which is described below in more detail, on

December 29, 1998, Host Marriott and various of its subsidiaries contributed substantially all of their assets to us and we assumed substantially all of their liabilities. As a result, we have succeeded to the hotel ownership business formerly conducted by Host Marriott. We conduct our business as an umbrella partnership REIT, or UPREIT, with Host REIT as our sole general partner. As of December 31, 2000, Host REIT held approximately 78% of our outstanding partnership interests, which we refer to as OP Units. On February 7, 2001, certain limited partners converted 12.5 million OP Units to Host REIT common shares and immediately sold them to an underwriter for sale on the open market. As a result, Host REIT now owns approximately 82% of the Operating Partnership.

Together with Host REIT, we were formed primarily to continue, in an UPREIT structure, the full service hotel ownership business formerly conducted by Host Marriott and its subsidiaries. We use the name Host Marriott to refer to Host Marriott Corporation, the Delaware corporation, prior to the REIT conversion. Our primary business objective is to provide superior total returns to our unitholders through a combination of distributions, appreciation in net asset value per unit, and growth in funds from operations per unit, or FFO as defined by the National Association of Real Estate Investment Trusts (i.e., net income computed in accordance with generally accepted accounting principles, excluding gains or losses from debt restructuring and sales of properties, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures), by focusing on aggressive asset management and disciplined capital allocation. In addition, we endeavor to:

- maximize the value of our existing portfolio through an aggressive asset management program which focuses on selectively improving and expanding our hotels;

- acquire additional existing and newly developed upscale and luxury full service hotels in targeted markets primarily focusing on downtown hotels in core business districts in major metropolitan markets and select airport and resort/convention locations;

- complete our current development and expansion program, and selectively develop and construct new upscale and luxury full service hotels;

- regenerate capital through opportunistic asset sales and selectively dispose of noncore assets;

- opportunistically pursue other real estate investments.

As of March 12, 2001, we own 122 hotels, containing approximately 58,000 rooms, located throughout the United States and Canada. The hotels are generally operated under the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Swissotel brand names. These brand names are among the most respected and widely recognized brand names in the lodging industry.

Host REIT, our sole general partner, manages all aspects of our business. This includes decisions with respect to:

- sales and purchases of hotels;

- the financing of the hotels;

- the leasing of the hotels; and

- capital expenditures for the hotels subject to the terms of the leases and the management agreements.

Host REIT is managed by a Board of Directors and has no employees who are not also our employees.

Due to certain tax laws restricting REITs from deriving revenues directly from the operations of hotels, during 1999 and 2000 the hotels were leased by us to third party lessees, including primarily Crestline Capital Corporation, or "Crestline", and its subsidiaries, and managed on behalf of the lessees by nationally recognized hotel operators such as Marriott International, Four Seasons, Hyatt, Interstate and other companies.

The REIT Modernization Act, which was enacted in December 1999, amended the tax laws to permit REITs, effective January 1, 2001, (i) to lease hotels to a subsidiary that qualifies as a taxable REIT subsidiary, or

"TRS," and (ii) to own all of the voting stock of such TRS. Effective January 1, 2001, we completed a transaction with Crestline for the termination of the Crestline leases through the purchase of the entities, or "Crestline Lessee Entities", owning the leasehold interests with respect to 116 of our full-service hotels by our wholly-owned TRS for $207 million in cash, including approximately $6 million of legal fees and transfer taxes. In connection therewith, we recorded a non-recurring, pre-tax loss of $207 million during the fourth quarter of 2000, net of an $82 million tax benefit which we have recorded as a deferred tax asset, because for income tax purposes, the acquisition is recorded as an asset that will be amortized over the remaining term of the leases. In addition, the existing working capital of the respective hotels, valued at $90 million as of December 31, 2000, including the existing obligations under the working capital note, was transferred from Crestline to the TRS. Crestline remains the lessee of one of our full-service properties. The transaction simplifies our corporate structure, enables us to better control our portfolio of hotels, and is expected to be accretive to future earnings and cash flows, as the lessee entities have recorded substantial earnings and cash flow in 2000 and 1999, although there can be no guarantee that such results will continue. The TRS will pay rent to us, and will be obligated to the managers for the fees and costs reimbursements under the management agreements. On a consolidated basis, our results of operations beginning in 2001 will reflect the revenues and expenses generated by these hotels rather than rental income.

The economic trends affecting the hotel industry and the overall economy will be a major factor in generating growth in hotel revenues, and the abilities of the managers will also have a material impact on future hotel level sales and operating profit growth. Our hotel properties may be impacted by inflation through its effect on increasing costs, as well as recent increases in energy costs. Unlike other real estate, hotels have the ability to change room rates on a daily basis, so the impact of higher inflation often can be passed on to customers, particularly in the transient segment. However, an economic downturn may affect the managers' ability to increase room rates. Through our strategic restructuring of our balance sheet, nearly 95% of our debt bears interest at fixed rates, which mitigates the impact of rising interest rates.

We endeavor to selectively acquire upscale and luxury full service hotel lodging properties that complement our existing portfolio of high-end hotels. Based upon data provided by Smith Travel Research, we believe that our full service hotels outperform the industry's average occupancy rate by a significant margin, averaging 77.5% and 77.7% occupancy for fiscal years 2000 and 1999 compared to a 70.5% and 68.8% average occupancy for our competitive set for 2000 and 1999, respectively. "Our competitive set" refers to hotels in the upscale and luxury full service segment of the lodging industry, the segment which is most representative of our full service hotels, and consists of Crowne Plaza; Doubletree; Hyatt; Hilton; Radisson; Renaissance; Sheraton; Westin; and Wyndham.

The relatively high occupancy rates of our hotels, along with increased demand for full-service hotel rooms, have allowed the managers of our hotels to increase average daily room rates by selectively raising room rates for certain types of bookings and by minimizing, in specified cases, discounted group business, replacing it with higher-rate group and transient business. For the year ended December 31, 2000, as a percentage of total rooms sold, transient business comprised 59%, group business comprised 38%, and contract business comprised less than 3%. As a result, on a comparable basis, room revenue per available room ("REVPAR") for our full-service properties increased approximately 6.6% in 2000.

In addition to external growth generated by new acquisitions, we intend to aggressively manage our existing assets by carefully and periodically reviewing our portfolio to identify opportunities to selectively enhance operating performance through major capital improvements.

Business Strategy

Our primary business objective is to provide superior total returns to our shareholders through a combination of distributions, appreciation in net asset value per unit, and growth in FFO per unit. In order to achieve this objective we employ the following strategies:

- acquire existing upscale and luxury full-service hotels as market conditions permit, including Marriott and Ritz-Carlton hotels and other hotels operated by leading management companies such as Four

Seasons, Hyatt, and Hilton which satisfy our investment criteria, which acquisitions may be completed through various means including transactions where we are already a partner, public and private portfolio transactions, and by entering into joint ventures when we believe our return on investment will be maximized by doing so;

- complete the development of our existing pipeline, including the 295-room Ritz-Carlton, Naples, Golf Resort, the 50,000 square-foot spa also at the Ritz-Carlton, Naples, and the 200-room expansion of the Memphis Marriott, as well as selectively expand existing properties and develop new upscale and luxury full-service hotels, operated by leading management companies, which satisfy our investment criteria and employ transaction structures which mitigate our risk;

- maximize the value of our existing portfolio through aggressive asset management, including completing selective capital improvements and expansions that are designed to increase gross hotel sales or improve operations; and

- regenerate capital through opportunistic asset sales and selectively dispose of noncore assets, including older assets with significant capital needs, assets that are at risk given potential new supply, or assets in slower-growth markets.

The availability of suitable acquisition candidates that complement our portfolio of high-end hotels has been limited recently due to market conditions. Most products in the market consist of smaller, suburban hotels, and as many luxury hotel owners are choosing to hold on to their assets at this time, competition for the limited number of available properties in the top markets has caused them to be generally not price competitive. However, we believe that acquisitions that meet our stringent criteria will provide the highest and best use of our capital as they become available.

Our acquisition strategy focuses on the upscale and luxury full-service segments of the market, which we believe will continue to offer opportunities over time to acquire assets at attractive multiples of cash flow and at discounts to replacement value. Our acquisition criteria continues to focus on:

- properties in difficult to duplicate locations with high costs to prospective competitors, such as hotels located in urban, airport and resort/convention locations;

- premium brand names, such as Marriott, Ritz-Carlton, Four Seasons, Hilton, and Hyatt;

- underperforming hotels which can be improved by conversion to high quality brands; and

- properties which are operated by leading management companies such as Marriott, Ritz-Carlton, Four Seasons, Hilton, and Hyatt.

In recent years, we have increased our pool of potential acquisition candidates to include select non-Marriott and non-Ritz-Carlton branded hotels which offer long-term growth potential, have high quality managers and are consistent with the overall quality of our portfolio. For example, in December 1998 we acquired a portfolio of hotels consisting of two Ritz-Carlton, two Four Seasons, one Grand Hyatt, three Hyatt Regency and four Swissotel properties.

Our current portfolio of hotels are operated under the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Swissotel brand names. In general, based upon data provided by Smith Travel Research, we believe that these premium brands have consistently outperformed the industry. Demonstrating the strength of our portfolio, our comparable properties, consisting of 118 hotels, owned directly or indirectly by us for the entire 2000 and 1999 fiscal years, respectively (excluding one property that sustained substantial fire damage during 2000, two properties where significant expansion at the hotels affected operations, and the Tampa Waterside Marriott, which opened in February 2000), generated a 32% and 33% REVPAR premium over our competitive set for fiscal years 2000 and 1999, respectively.

Based on the strength of our portfolio of premium hotels, management anticipates that any additional full service properties acquired in the future and converted from other brands to one of our premium brands should

achieve increases in occupancy rates and average room rates as the properties begin to benefit from brand name recognition, and national reservation systems and group sales organizations. Since the beginning of fiscal year 1994, we have acquired 15 hotels that we have converted to premium brands.

We believe we are well qualified to pursue our acquisition and development strategy. Management has extensive experience in acquiring and financing lodging properties and believes its industry knowledge, relationships and access to market information provide a competitive advantage with respect to identifying, evaluating and acquiring hotel assets.

Our asset management team, which is comprised of professionals with exceptional industry knowledge and relationships, focuses on maximizing the value of our existing portfolio through (i) monitoring property and brand performance; (ii) pursuing expansion and repositioning opportunities; (iii) overseeing capital expenditure budgets and forecasts; (iv) assessing return on investment expenditure opportunities; and (v) analyzing competitive supply conditions in each market.

In September 1999, the board of directors of Host REIT approved the repurchase, from time to time on the open market and/or in privately negotiated transactions, of up to 22 million of the outstanding shares of Host REIT's common stock, OP Units, or Host REIT's Convertible Preferred Securities convertible into a like number of shares of its common stock. Through March 2000, we spent, in the aggregate, approximately $150 million, $62 million in 2000, on repurchases for a total reduction of 16.2 million equivalent units on a fully diluted basis. We have not made any repurchases since that time, but will continue to evaluate the repurchase program based on changes in market conditions and Host REIT's stock price.

The REIT Conversion

During 1998, Host Marriott and its subsidiaries and affiliates consummated a series of transactions in order to qualify as a REIT for federal income tax purposes. As a result of these transactions, the hotels formerly owned by Host Marriott and its subsidiaries and other affiliates are now owned by us and our subsidiaries, we and our subsidiaries leased substantially all of these hotels to Crestline Capital Corporation, and Marriott International and other hotel operators conducted the day to day management of the hotels pursuant to management agreements with Crestline. Host REIT has elected to be treated as a REIT for federal income tax purposes effective January 1, 1999. The important transactions comprising the REIT conversion are summarized below.

During 1998, Host Marriott reorganized its hotels and certain other assets so that they were owned by us and our subsidiaries. Host Marriott and its subsidiaries received a number of OP Units equal to the number of then outstanding shares of Host Marriott common stock, and we and our subsidiaries assumed substantially all of the liabilities of Host Marriott and its subsidiaries. As a result of this reorganization and the related transactions described below, Host REIT is our sole general partner and as of December 31, 2000 held approximately 78% of the outstanding OP Units. We and our subsidiaries conduct the hotel ownership business. OP Units owned by holders other than Host REIT are redeemable at the option of the holder, generally commencing one year after the issuance of their OP Units. Upon redemption of an OP Unit, the holder would receive from us cash in an amount equal to the market value of one share of Host REIT common stock. However, in lieu of a cash redemption by us, we have the right to acquire any OP Unit offered for redemption directly from the holder thereof in exchange for either one share of Host REIT common stock or cash in an amount equal to the market value of one share of Host REIT common stock. On February 7, 2001, certain limited partners converted 12.5 million OP Units to Host REIT common shares and immediately sold them to an underwriter for sale on the open market. As a result, Host REIT now owns approximately 82% of the outstanding OP Units.

In connection with the REIT conversion, two taxable corporations were formed in which we own approximately 95% of the economic interest but none of the voting interest. We refer to these two subsidiaries as the non-controlled subsidiaries. The non-controlled subsidiaries hold various assets and related liabilities totaling $354 million and $245 million, respectively, at December 31, 2000, which were originally contributed by Host Marriott and its subsidiaries to us, but whose direct ownership by us or our subsidiaries generally would

jeopardize Host REIT's status as a REIT and our status as a partnership for federal income tax purposes. These assets primarily consist of controlling interests in partnerships or other interests in three full-service hotels which are not leased, and specified furniture, fixtures and equipment--also known as FF&E--used in the hotels. We have no control over the operation or management of the hotels or other assets owned by the non-controlled subsidiaries. The Host Marriott Statutory Employee/Charitable Trust acquired all of the voting common stock of each non-controlled subsidiary, representing, in each case, the remaining approximately 5% of the total economic interests in each non-controlled subsidiary. The beneficiaries of the Employee/Charitable Trust are a trust formed for the benefit of specified employees of the operating partnership and the J. Willard and Alice S. Marriott Foundation. During February 2001, the Board of Directors of Host REIT approved the acquisition by our TRS of the interests in the non-controlled subsidiaries held by the Host Marriott Statutory Employee/Charitable Trust for approximately $2 million in cash. If the transaction is consummated, and there can be no assurance that the transaction will be consummated, on a consolidated basis our results of operations will reflect the revenues and expenses generated by the two taxable corporations, our consolidated balance sheets will include various assets and related liabilities held by the two taxable corporations. Approximately $26 million of the subsidiaries' debt principal matures during 2001. In addition, we will consolidate three additional full-service properties, one located in Missouri, and two located in Mexico City, Mexico.

Under the terms of the leases, the lessees pay rent to us and our subsidiaries generally equal to the greater of (1) a specified minimum rent or (2) rent based on specified percentages of different categories of aggregate sales at the relevant hotels. Generally, there is a separate lessee for each hotel property or there is a separate lessee for each group of hotel properties that has separate mortgage financing or has owners in addition to us and wholly owned subsidiaries. The lessees for all but four of our hotels are limited liability companies, formerly wholly-owned subsidiaries of Crestline, each of whose purpose is limited to acting as lessee under an applicable lease. The limited liability company agreements provide that the lessee has full control over the management of the business of the lessee, except with respect to certain decisions for which the consent of other members or the hotel manager is required. In addition, Marriott International or its appropriate subsidiary has a non-economic voting interest on specific matters pertaining to hotels managed by Marriott International or its subsidiaries.

The leases, through the sales percentage rent provisions, are designed to allow us and our subsidiaries that own our properties to participate in any growth above specified levels in room sales at the hotels, which management expects can be achieved through increases in room rates and occupancy levels. Although the economic trends affecting the hotel industry will be the major factor in generating growth in revenues, the abilities of the lessees and the managers will also have a material impact on future sales growth. In 2001, with 116 of our full-service hotels leased to our wholly-owned TRS, any increases in future earnings and cash flows at the hotels will have a direct, positive effect on our consolidated earnings and cash flows. Our leases have terms ranging from seven to ten years.

In December 1999, the REIT Modernization Act was enacted, with most provisions effective for taxable years beginning after December 31, 2000, which significantly amends the REIT laws applicable to us and Host REIT. Under the applicable sections of the Internal Revenue Code, as amended by the REIT Modernization Act, and the corresponding regulations that govern the federal income tax treatment of REITs and their shareholders, a REIT must meet certain tests regarding the nature of its income and assets, as follows.

Qualification of an entity as a taxable REIT subsidiary. Beginning January 1, 2001, a REIT is permitted to own up to 100% of the voting stock of one or more taxable REIT subsidiaries subject to limitations on the value of those subsidiaries. The rents received from such subsidiaries will not be disqualified from being "rents from real property" by reason of the operating partnership's ownership interest in the subsidiary so long as the property is operated on behalf of the taxable REIT subsidiary by an "eligible independent contractor." This enables us to lease our hotels to wholly-owned taxable subsidiaries if the hotels are operated and managed on behalf of such subsidiaries by an independent third party. Under the REIT Modernization Act, taxable REIT subsidiaries are subject to federal income tax.

Income tests applicable to REITs. In order to maintain qualification as a REIT, two gross income requirements must be satisfied on an annual basis.

- At least 75% of gross income, excluding gross income from prohibited transactions, must be derived directly or indirectly from investments relating to real property, including "rents from real property", gains on the disposition of real estate, dividends paid by another REIT and interest on obligations secured by mortgages on real property or on interests in real property, or from some types of temporary investments.

- At least 95% of gross income, excluding gross income from prohibited transactions, must be derived from any combination of income qualifying under the 75% test, dividends, interest, some payments under hedging instruments, and gain from the sale or disposition of stock or securities, including some hedging instruments.

Rents received from a TRS will qualify as "rents from real property" as long as the leases are true leases and the property is a qualified lodging facility operated by an eligible independent contractor. If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease (based on relative fair market values), then the portion of rent attributable to such personal property will not qualify as "rents from real property."

Asset tests applicable to REITs. At the close of each quarter of its taxable year, a REIT must satisfy four tests relating to the nature of its assets.

- At least 75% of the value of total assets must be represented by real estate assets. Our real estate assets include, for this purpose, our allocable share of real estate assets held by the operating partnership and its non-corporate subsidiaries, as well as stock or debt instruments held for less than one year purchased with the proceeds of a stock or long-term debt offering, cash and government securities.

- No more than 25% of total assets may be represented by securities other than those in the 75% asset class.

- Of the investments included in the 25% asset class, the value of any one issuer's securities may not exceed 5% of total assets, and a REIT may not own more than 10% of either the outstanding voting securities or the value of the outstanding securities of any one issuer. Beginning in 2001, this limit does not apply to securities of a TRS.

- Not more than 20% of total assets may be represented by securities of taxable REIT subsidiaries.

Recent Acquisitions, Developments and Dispositions

The pace of acquisitions changed significantly in 2000 and 1999 from the previous years. After three years of acquisitions numbering 36, 17, and 24 full service hotels for 1998, 1997 and 1996, respectively, our recent acquisitions were limited due to the availability of suitable acquisition candidates that complement our portfolio of high-end hotels, increased price competition and capital limitations due to weak equity markets for REIT stocks. We believe that acquisitions that meet our stringent criteria will provide the highest and best use of our capital. Future acquisitions are likely to be either public or private portfolio transactions, and transactions where we already hold minority partnership interests. In addition, we believe we can successfully add properties to our portfolio through partnership arrangements with either the seller of the property or the incoming managers.

During 2000, we acquired a non-controlling partnership interest in the 772-room J.W. Marriott Hotel in Washington, D.C. in which we already held a 17% limited partner interest for $40 million and have the option to purchase an additional 44% limited partnership interest. During 1999, our acquisitions were limited to the acquisition of minority interests in two hotels, where we had previously acquired the controlling interests, for a total consideration of approximately $14 million. We have the financial flexibility and, due to our existing private partnership investment portfolio, the administrative infrastructure in place to accommodate such arrangements. We view this ability as a competitive advantage and expect to enter into similar arrangements to acquire additional properties in the future.

Also during 2000, we, through our affiliates, formed a joint venture with Marriott International, the "Courtyard Joint Venture," to acquire the partnership interests in Courtyard by Marriott Limited Partnership and Courtyard by Marriott II Limited Partnership for an aggregate payment of approximately $372 million plus interest and legal fees, of which we paid approximately $79 million. The Courtyard Joint Venture acquired 120 Courtyard by Marriott properties totaling 17,554 rooms. The joint venture financed the acquisition with mezzanine indebtedness borrowed from Marriott International and with cash and other assets contributed by our affiliates and Marriott International. The investment was consummated pursuant to a litigation settlement involving the two limited partnerships, in which we, through our affiliates, served as general partner, rather than as a strategic initiative.

During 2000, we focused our energies on increasing the value of our current portfolio with selective investments, expansions and new developments. We plan to complete our current pipeline of development activity, and selectively expand existing properties and develop new upscale and luxury full-service hotels that complement our quality portfolio in the future. We intend to target only development projects that show promise of providing financial returns that represent a premium to returns from acquisitions. The largest of our recent development projects has been the construction of a 717-room full service Marriott hotel adjacent to the convention center in downtown Tampa, Florida. The hotel, which was completed and opened for business on February 19, 2000, includes 45,000 square feet of meeting space, three restaurants and a 30 slip marina as well as many other amenities. The total development cost of the property was approximately $104 million, excluding a $16 million tax subsidy provided by the City of Tampa.

At the Orlando Marriott, the addition of a 500-room tower and 15,000 square feet of meeting space was placed in service in June 2000 at an approximate development cost of $88 million, making it the largest hotel in the Marriott system with 2000 rooms. We also have renovated the golf course, added a multi-level parking deck, and upgraded and expanded several restaurants.

Also under development is a 50,000 square-foot world-class spa at the Ritz-Carlton, Naples, at an estimated development cost of $23 million, scheduled for completion in March 2001. A 295-room Ritz-Carlton Golf Resort in Naples is in process approximately 2 miles from the Ritz-Carlton, Naples, at an estimated development cost of $75 million, with expected completion during the fourth quarter of 2001. The golf resort will also host 15,000 square-feet of meeting space, four food and beverage outlets, and full access to 36 holes of a Greg Norman designed golf course surrounding the hotel. The newly created golf resort, as well as the new spa facility will operate in concert with the 463-room Ritz-Carlton, Naples and on a combined basis will offer travelers an unmatched resort experience. Further, given the close proximity of the properties to each other, we will benefit from cost efficiencies and the ability to capture larger groups.

We expect to begin a 200-room expansion of the Memphis Marriott, which is located adjacent to a newly-renovated convention center. The property was converted to the Marriott brand upon acquisition in 1998 to capitalize on Marriott's brand name recognition. The project is expected to be completed in 2002 at a total development cost of approximately $16 million.

Also during 2000, we focused on aggressively managing our existing assets, including completing approximately $21 million in projects that are expected to provide internal rates of return in excess of 24%. Major projects completed during the year include a renovation of the guest rooms and public space at the Boston Marriott Newton, a conversion of a rooftop ballroom to high-end catering and meeting space at the Marina Beach Marriott, and a conversion of lounge space to flexible meeting space at the Ft. Lauderdale Marina Marriott.

We also accomplished various projects to enhance revenues, control expenses, and enhance technology at the hotels. During 2000, we added approximately 36,000 square feet of meeting space and 200 premium-priced rooms to the portfolio, and approved new parking contracts at four of our properties. We authorized utility conservation efforts including energy management strategies at five properties, the closing of several unprofitable food and beverage outlets, and the development of a program to review labor models. We also approved internet

connectivity solutions and in-room portal and entertainment options to better meet the technology needs of our customers.

Through subsidiaries we currently own four Canadian properties, with 1,636 rooms. International acquisitions are limited due to the difficulty in meeting our stringent return criteria. However, we intend to continue to evaluate acquisition opportunities in Canada and other international locations. The overbuilding and economic stress experienced in some European and Pacific Rim countries may eventually lead to additional international acquisition opportunities. We will acquire international properties only when we believe such acquisitions achieve satisfactory returns after adjustments for currency and country risks.

We will also consider from time to time selling hotels that do not fit our long-term strategy, or otherwise meet our ongoing investment criteria, including for example, hotels in some suburban locations, hotels that require significant future capital improvement and other underperforming assets. The net proceeds from any such sales will be reinvested in upscale and luxury hotels more consistent with our strategy or otherwise applied in a manner consistent with our investment strategy (which may include the purchase of securities) at the time of sale. We did not dispose of any hotels during 2000. The following table summarizes our 1999 dispositions (in millions, except in number of rooms):

Property	Location	Rooms	Total Consideration	Pre-tax Gain (Loss) on Disposal
Minneapolis/Bloomington Marriott	Bloomington, MN	479	$35	$10
Saddle Brook Marriott	Saddle Brook, NJ	221	15	3
Marriott's Grand Hotel Resort and Golf Club	Point Clear, AL	306	28	(2)
The Ritz-Carlton, Boston	Boston, MA	275	119	15
El Paso Marriott	El Paso, TX	296	1	(2)

Hotel Lodging Industry

The lodging industry posted moderate gains in 2000 and 1999 as higher average daily rates drove strong increases in REVPAR, which measures daily room revenues generated on a per room basis. This does not include food and beverage or other ancillary revenues generated by the property. REVPAR represents the product of the average daily room rate charged and the average daily occupancy achieved. Previously, the upper upscale sector of the lodging industry benefited from a favorable supply/demand imbalance, driven in part by low construction levels combined with high gross domestic product, or GDP, growth. However, during 1998 through 2000, supply moderately outpaced demand, causing slight declines in occupancy rates in the sector in which we operate.

According to Smith Travel Research, occupancy in our brands' competitive set consisting of Crowne Plaza; Doubletree; Hyatt; Hilton; Radisson; Renaissance; Sheraton; Westin; and Wyndham increased 2.5% for the year ended December 31, 2000. Within our competitive set, the slight increase in occupancy during 2000 was reinforced by a 5.0% increase in average daily rate which generated a 7.4% increase in REVPAR.

The current amount of excess supply growth in the upper-upscale and luxury portions of the full-service segment of the lodging industry is beginning to moderate and has been much less severe than that experienced in the lodging industry in other economic downturns, in part because of the greater financial discipline and lending practices imposed by financial institutions and public markets today relative to those during the late 1980's.

The occupancy rates and average daily rates commanded by our properties have exceeded both the industry as a whole and the upper-upscale and luxury full service segment. The attractive locations of our hotels, the limited availability of new building sites for new construction of competing full service hotels, and the lack of availability of financing for new full service hotels has allowed us to maintain REVPAR and average daily rate premiums over our competitors in these service segments. For our comparable hotels, average daily rates increased 6.3% in 2000. The increase in average daily rate helped generate a strong increase in comparable hotel

REVPAR of 6.6% for the same period. Furthermore, because our lodging operations have a high fixed-cost component, increases in REVPAR generally yield greater percentage increases in our earnings and cash flows. As a result of our acquisition of the Crestline Lessee Entities with respect to 116 of our full-service hotels, effective January 1, 2001 any change in earnings and cash flow levels at those properties (which formerly were leased to Crestline) will have a direct effect on our consolidated earnings and cash flows.

The relative balance between supply and demand growth may be influenced by a number of factors including growth of the economy, interest rates, unique local considerations and the relatively long lead time to develop urban, convention and resort hotels. We believe that growth in room supply in upper-upscale sector in which we operate will continue to exceed room demand growth through 2001. However, we believe that during 2001 and 2002, supply growth will begin to decrease, as the lack of availability of development financing slows new construction. We further believe that demand growth will begin to increase during 2001 and 2002. However, some economists are predicting an economic slowdown in 2001, which could lead to substantial decreases in demand. There can be no assurance that growth in supply will decrease, or that REVPAR and EBITDA will continue to improve.

Hotel Lodging Properties

Our lodging portfolio, as of March 12, 2001, consists of 122 upscale and luxury full service hotels containing approximately 58,000 rooms. Our hotel lodging properties represent quality upscale and luxury assets in the full service segment. Our hotel properties are currently operated under various premium brands including Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt, and Swissotel brand names.

Our hotels average approximately 478 rooms. Thirteen of our hotels have more than 750 rooms. Hotel facilities typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, gift shops and parking facilities. Our hotels primarily serve business and pleasure travelers and group meetings at locations in urban, airport, resort convention and suburban locations throughout the United States. The properties are generally well situated in locations where there are significant barriers to entry by competitors including downtown areas of major metropolitan cities, at airports and resort/convention locations where there are limited or no development sites. The average age of the properties is 17 years, although many of the properties have had substantial renovations or major additions.

To maintain the overall quality of our lodging properties, each property undergoes refurbishments and capital improvements on a regularly scheduled basis. Typically, refurbishing has been provided at intervals of five years, based on an annual review of the condition of each property. For fiscal years 2000, 1999 and 1998 we spent $230 million, $197 million and $165 million, respectively, on capital improvements to existing properties. As a result of these expenditures, we expect to maintain high quality rooms, restaurants and meeting facilities at our properties.

In addition to acquiring and maintaining superior assets, a key part of our strategy is to have the hotels managed by leading management companies. As of March 12, 2001, 100 of our 122 hotel properties were managed by subsidiaries of Marriott International as Marriott or Ritz-Carlton brand hotels and an additional nine hotels are part of Marriott International's full-service hotel system through franchise agreements. The remaining hotels are managed by leading management companies including Four Seasons, Hilton, and Hyatt. Our properties have reported annual increases in REVPAR since 1993. Based upon data provided by Smith Travel Research, our comparable properties, as previously defined, have an approximate 5 and 6 percentage point occupancy premium and an approximate 32% and 33% REVPAR premium over the competitive set for fiscal years 2000 and 1999, respectively.

The chart below sets forth performance information for our comparable properties:

	2000	1999
Comparable Full-Service Hotels(1)		
Number of properties	118	118
Number of rooms	53,899	53,899
Average daily rate	$157.96	$148.61
Occupancy percentage	78.2%	77.9%
REVPAR	$123.50	$115.82
REVPAR % change	6.6%	--

- --------

(1) Consists of 118 properties owned, directly or indirectly, by us for the entire 2000 and 1999 fiscal years, respectively, excluding one property that sustained substantial fire damage during 2000, two properties where significant expansion at the hotels affected operations, and the Tampa Waterside Marriott, which opened in February 2000. These properties, for the respective periods, represent the "comparable properties."

The chart below presents some performance information for our entire portfolio of full-service hotels:

	2000	1999 (1)	1998 (2)
Number of properties	122	121	126
Number of rooms	58,373	57,086	58,445
Average daily rate	$157.93	$149.51	$140.36
Occupancy percentage	77.5%	77.7%	77.7%
REVPAR	$122.43	$116.13	$109.06

- --------

(1) The property statistics and operating results include operations for the Minneapolis/Bloomington Marriott, the Saddle Brook Marriott, Marriott's Grand Hotel Resort and Golf Club, The Ritz-Carlton, Boston, and the El Paso Marriott, which were sold at various times throughout 1999, through the date of sale.

(2) The property statistics are as of December 31, 1998 and include 25 properties (9,965 rooms) acquired during that month.

The following table presents performance information for our comparable properties by geographic region for 2000 and 1999:

	As of December 31, 2000	Year Ended December 31, 2000			Year Ended December 31, 1999		
Geographic Region	Number of Hotels	Average Number of Guest Rooms	Average Occupancy	Average Daily Rate	REVPAR	Average Occupancy	Average Daily Rate	REVPAR
Atlanta	11	486	72.4%	$158.54	$114.75	74.7%	$148.78	$111.12
Florida	11	443	77.1	155.04	119.53	77.5	147.10	113.95
Mid-Atlantic	17	364	75.9	145.42	110.33	75.8	132.80	100.69
Midwest	14	358	75.2	141.00	106.03	76.6	132.75	101.71
New York	9	642	87.5	228.99	200.39	87.0	212.25	184.70
Northeast	11	390	76.8	138.28	106.15	77.2	129.93	100.32
South Central	18	506	78.1	125.55	98.01	76.5	123.44	94.45
Western	27	492	79.6	164.43	130.94	78.2	154.26	120.60
Average--All regions	118	456	78.2	157.96	123.50	77.9	148.61	115.82

During 2000 and 1999, our foreign operations consisted of four full-service hotel properties located in Canada. During 1998, our foreign operations consisted of the four full-service properties in Canada as well as two full-service properties in Mexico. During 2000, 1999, and 1998, respectively, 98%, 98%, and 97% of total revenues were attributed to sales within the United States, and 2%, 2%, and 3% of total revenues were attributed to foreign countries.

Prior to 1997, we divested certain limited-service hotel properties through the sale and leaseback of 53 Courtyard properties and 18 Residence Inn properties. The Courtyard and Residence Inn properties are subleased to subsidiaries of Crestline under sublease agreements and are managed by Marriott International under long-term management agreements. During 2000, limited-service properties represented less than 1% of our EBITDA from hotel properties. Lease revenues for the 71 properties that we sub-lease are reflected in our revenues in 2000 and 1999, while gross property-level sales were reflected previous to that.

During 2000, the Courtyard Joint Venture, which was formed by us (through our non-controlled subsidiary) and Marriott International, acquired the partnership interests in Courtyard by Marriott Limited Partnership and Courtyard by Marriott II Limited Partnership, which collectively own 120 Courtyard by Marriott properties totaling 17,554 rooms. We own, through our affiliates, a 50% non-controlling interest in the joint venture.

The following table sets forth the location and number of rooms of our 122 hotels as of March 1, 2001. All of the properties are currently leased to our wholly-owned taxable REIT subsidiary, unless otherwise indicated.

Location	Rooms
Arizona	
Mountain Shadows Resort	337
Scottsdale Suites	251
The Ritz-Carlton, Phoenix	281
California	
Coronado Island Resort(1)	300
Costa Mesa Suites	253
Desert Springs Resort and Spa	884
Fullerton(1)	224
Hyatt Regency, Burlingame	793
Manhattan Beach(1)(2)	380
Marina Beach(1)	370
Newport Beach	586
Newport Beach Suites	250
Ontario Airport(2)	299
Sacramento Airport(3)	85
San Diego Marriott Hotel and Marina(1)(2)(3)	1,355
San Diego Mission Valley(2)(3)	350
San Francisco Airport	684
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)	306
The Ritz-Carlton, San Francisco	336
Torrance	487
Colorado	
Denver Southeast(1)	590
Denver Tech Center	625
Denver West(1)	305
Marriott's Mountain Resort at Vail	349
Connecticut	
Hartford/Farmington	380
Hartford/Rocky Hill(1)	251
Florida	
Fort Lauderdale Marina	580
Harbor Beach Resort(1)(2)(3)	637
Jacksonville(1)	256
Miami Airport(1)	782
Miami Biscayne Bay(1)	605
Orlando World Center	2,000
Palm Beach Gardens	279
Singer Island Hilton	223
Tampa Airport(1)	295
Tampa Waterside	717
Tampa Westshore(1)	309
The Ritz-Carlton, Amelia Island	449
The Ritz-Carlton, Naples	463
Georgia	
Atlanta Marriott Marquis	1,671
Atlanta Midtown Suites(1)	254

Location	Rooms
Georgia (continued)	
Atlanta Norcross	222
Atlanta Northwest	401
Atlanta Perimeter(1)	400
Four Seasons, Atlanta	246
Grand Hyatt, Atlanta	438
JW Marriott Hotel at Lenox(1)	371
Swissotel, Atlanta	348
The Ritz-Carlton, Atlanta	447
The Ritz-Carlton, Buckhead	553

Illinois	
Chicago/Deerfield Suites	248
Chicago/Downers Grove Suites	254
Chicago/Downtown Courtyard	334
Chicago O'Hare	681
Chicago O'Hare Suites(1)	256
Swissotel, Chicago	630
Indiana	
South Bend(1)	300
Louisiana	
New Orleans	1,290
Maryland	
Bethesda(1)	407
Gaithersburg/Washingtonian Center	284
Massachusetts	
Boston/Newton	430
Hyatt Regency, Cambridge	469
Swissotel, Boston	498
Michigan	
The Ritz-Carlton, Dearborn	308
Detroit Livonia	224
Detroit Romulus	245
Detroit Southfield	226
Minnesota	
Minneapolis City Center	583
Minneapolis Southwest(2)(3)	320
Missouri	
Kansas City Airport(1)	382
New Hampshire	
Nashua	251
New Jersey	
Hanover	353
Newark Airport(1)	591
Park Ridge(1)	289
New Mexico	
Albuquerque(1)	411
New York	
Albany(2)(3)	359
New York Marriott Financial Center	504
New York Marriott Marquis(1)	1,944
Marriott World Trade Center (1)	820
Swissotel, The Drake	494

Location	Rooms
North Carolina	
Charlotte Executive Park	298
Greensboro/Highpoint(1)	299
Raleigh Crabtree Valley	375
Research Triangle Park	224
Ohio	
Dayton	399
Oklahoma	
Oklahoma City	354
Oklahoma City Waterford(2)	197
Oregon	
Portland	503
Pennsylvania	
Four Seasons, Philadelphia	364
Philadelphia Convention Center(1)(2)	1,408
Philadelphia Airport(1)	419
Pittsburgh City Center(1)(2)	400
Tennessee	
Memphis	403
Texas	
Dallas/Fort Worth Airport	492
Dallas Quorum(1)	547
Houston Airport(1)	565
Houston Medical Center(1)	386
JW Marriott Houston	514
Plaza San Antonio(1)	252

Location	Rooms
Texas (continued)	
San Antonio Rivercenter(1)	1,001
San Antonio Riverwalk(1)	513
Utah	
Salt Lake City(1)	510
Virginia	
Dulles Airport(1)	368
Fairview Park	395
Hyatt Regency, Reston	514
Key Bridge(1)	588
Norfolk Waterside(1)	404
Pentagon City Residence Inn	300
The Ritz-Carlton, Tysons Corner(1)	398
Washington Dulles Suites	254
Westfields	335
Williamsburg	295
Washington	
Seattle SeaTac Airport	459
Washington, DC	
Washington Metro Center	456
Canada	
Calgary	380
Toronto Airport(2)	423
Toronto Eaton Center(1)	459
Toronto Delta Meadowvale	374
TOTAL	58,373

- --------

(1) The land on which this hotel is built is leased under one or more long-term lease agreements.
(2) This property is not wholly owned by the operating partnership.
(3) This property is not leased to our TRS.

Investments in Affiliated Partnerships

We also maintain investments in several partnerships that own hotel properties. Typically, we and certain of our subsidiaries manage our partnership investments and through a combination of general and limited partnership interests, conduct the partnership services business. As previously discussed, during 2000 we acquired a non-controlling interest in the partnership that owns the J.W. Marriott Hotel in Washington, D.C. In connection with the REIT conversion, Rockledge Hotel Properties and Fernwood Hotel Assets were formed as non-controlled subsidiaries to hold various assets, the direct ownership of which by us or the operating partnership could jeopardize Host REIT's status as a REIT or our treatment as a partnership for federal income tax purposes. As of December 31, 2000, substantially all of our general and limited partner interests in partnerships owning 208 limited-service properties (including nearly all of our interests in the Courtyard Joint Venture) and four full-service hotels were held by our two non-controlled subsidiaries.

The partnership hotels are currently operated under management agreements with Marriott International or its subsidiaries. As the general partner, we oversee and monitor Marriott International and its subsidiaries' performance

pursuant to these agreements. Additionally, we are responsible for the payment of partnership obligations from partnership funds, preparation of financial reports and tax returns and communications with lenders, limited partners and regulatory bodies. As the general partner, we are reimbursed for the cost of providing these services subject to limitations in certain cases. Cash distributions provided from these partnerships are tied to the overall performance of the underlying properties and the overall level of debt. Distributions from these partnerships to us were $1.3 million in 2000 and $2 million in 1998. There were no distributions in 1999. All debt of these partnerships is nonrecourse to us and our subsidiaries, except that we are contingently liable under various guarantees of debt obligations of certain of the limited-service partnerships.

Marketing

As of March 1, 2001, 100 of our 122 hotel properties are managed by subsidiaries of Marriott International as Marriott or Ritz-Carlton brand hotels and an additional nine hotels are part of Marriott International's full-service hotel system through franchise agreements. The remaining hotels are managed primarily by Four Seasons, Hilton, Hyatt, and Swissotel.

We believe that our properties will continue to enjoy competitive advantages arising from their participation in the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Swissotel hotel systems. The national marketing programs and reservation systems of each of these managers, as well as the advantages of strong customer preference for these upper-upscale and luxury brands should also help these properties to maintain or increase their premium over competitors in both occupancy and room rates. Repeat guest business is enhanced by guest rewards programs offered by Marriott, Ritz-Carlton, Hilton, Hyatt, and Swissotel. Each of the managers maintains national reservation systems that provide reservation agents with complete descriptions of the rooms available and up-to-date rate information from the properties. Our website (www.hostmarriott.com) currently permits users to connect to the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt, and Swissotel reservation systems to reserve rooms in our hotels.

Competition

Our hotels compete with several other major lodging brands in each segment in which they operate. Competition in the industry is based primarily on the level of service, quality of accommodations, convenience of locations and room rates. Although the competitive position of each of our hotel properties differs from market to market, we believe that our properties compare favorably to their competitive set in the markets in which they operate on the basis of these factors. The following table presents key participants in segments of the lodging industry in which we compete:

Segment	Representative Participants
Luxury Full-Service	Ritz-Carlton; Four Seasons
Upscale Full-Service	Crown Plaza; Doubletree; Hyatt; Hilton; Marriott Hotels, Resort and Suites; Radisson; Renaissance; Sheraton; Swissotel; Westin; Wyndham

Seasonality

Our hotel revenues have traditionally experienced significant seasonality. Additionally, hotel revenues in the fourth quarter reflect sixteen weeks of results compared to twelve weeks for the first three quarters of the fiscal year. Average hotel sales by quarter over the years 1998 through 2000 for our lodging properties are as follows:

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
22%	24%	22%	32%

Other Real Estate Investments

We have lease and sublease activity relating primarily to Host Marriott's former restaurant operations. Additionally, we have lease activity related to certain office space that we own in Atlanta, Chicago, and San Francisco which is included in other revenues in our statements of operations.

Employees

Currently, we have approximately 201 management employees, and approximately 14 other employees who are covered by a collective bargaining agreement that is subject to review and renewal on a regular basis. We believe that we and our managers have good relations with labor unions and have not experienced any material business interruptions as a result of labor disputes.

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. Such 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 business may be operated, and these restrictions may require expenditures. In connection with our current or prior ownership or operation of hotels, we may be potentially liable for any such 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.

The Management Agreements

All of our hotels are subject to management agreements for the operation of the properties. The original terms of the management agreements are generally 15 to 20 years in length with multiple optional renewal terms. The following is a brief summary of the general terms of the management agreements a form of which has been filed with the Commission.

The lessees lease the hotels from us or our subsidiaries. Upon leasing the hotels, the lessees assumed substantially all of the obligations of such subsidiaries under the management agreements between those entities and other companies that currently manage the hotels. As a result of their assumptions of obligations under the management agreements, the lessees have substantially all of the rights and obligations of the "owners" of the hotels under the management agreements for the period during which the leases are in effect (including the obligation to pay the management fees and other fees thereunder) and hold the lessor harmless with respect thereto. The lessors remain liable for all obligations under the management agreements. As previously discussed, effective January 1, 2001, the lessor leases 116 of our full-service hotels to subsidiaries of a wholly-owned TRS. Therefore, through our wholly-owned subsidiary, we have assumed the rights and obligations of the "owners" under the management agreements with respect to the 116 hotels.

- General. Under each management agreement the manager provides complete management services to the applicable lessees in connection with its management of such lessee's hotels.

- Operational services. The managers are responsible for the activities necessary for the day-to-day operation of the hotels, including establishment of all room rates, the processing of reservations, procurement of inventories, supplies and services, periodic inspection and consultation visits to the hotels by the managers' technical and operational experts and promotion and publicity of the hotels. The manager receives compensation from the lessee in the form of a base management fee and an incentive management fee, which are normally calculated as percentages of gross revenues and operating profits, respectively.

- 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, such as planning and policy services, financial planning, divisional financial services, risk planning services, product planning and development, employee planning, corporate executive management, legislative and governmental representation and certain in-house legal services; and protect trademarks, trade-names and service marks. The manager also provides a national reservations system.

- Chain services. The management agreements require the manager to furnish chain services that are furnished generally on a central or regional basis. Such services include: (1) the development and operation of computer systems and reservation services, (2) administrative services, marketing and sales services, training services, manpower development and relocation costs of personnel and (3) such additional central services as may from time to time be more efficiently performed on a group level. Costs and expenses incurred in providing such services are required to be allocated among all hotels managed by the manager or its affiliates and each applicable lessee is required to reimburse the manager for its allocable share of such costs and expenses.

- Working capital and fixed asset supplies. The lessee is required to maintain working capital for each hotel and fund the cost of fixed asset supplies, which principally consist of linen and similar items. The applicable lessee also is responsible for providing funds to meet the cash needs for the operations of the hotels if at any time the funds available from operations are insufficient to meet the financial requirements of the hotels.

- Use of affiliates. The manager employs the services of its affiliates to provide certain services under the management agreements.

FF&E replacements. The management agreements generally provide that once each year the manager will prepare a list of FF&E to be acquired and certain routine repairs that are normally capitalized to be performed in the next year and an estimate of the funds necessary therefor. Under the terms of the leases, the lessor is required to provide to the applicable lessee all necessary FF&E for the operation of the hotels (including funding any required FF&E replacements). For purposes of funding the FF&E replacements, a specified percentage (generally 5%) of the gross revenues of the hotel is deposited by the manager into a book entry account. These amounts are treated under the leases as paid by the lessees to the lessor and will be credited against their rental obligations.

Under each lease, the lessor is responsible for the costs of FF&E replacements and for decisions with respect thereto (subject to its obligations to the lessee under the lease).

- Building alterations, improvements and renewals. The management agreements require the manager 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. Such estimate must be submitted to the lessor and the lessee for their approval. 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 or in accordance with Marriott standards. The cost of the foregoing is paid from the FF&E reserve account; to the extent that there are insufficient funds in such account, the lessor is required to pay any shortfall.

- Service marks. During the term of the management agreements, the service mark, symbols and logos currently used by the manager and its affiliates, may be used in the operation of the hotels. Marriott International, Four Seasons, Hilton, Hyatt, and Swissotel intend to retain their legal ownership of these marks. Any right to use the service marks, logo and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the management agreement with respect to such hotel.

- Termination fee. Certain of the management agreements provide that if the management agreement is terminated prior to its full term due to casualty, condemnation or the sale of the hotel, the manager would receive a termination fee as specified in the specific management agreement. Under the leases, the responsibility for the payment of any such termination fee as between the lessee and the lessor depends upon the cause for such termination.

- Termination for failure to perform. Most of the management agreements may be terminated based upon a failure to meet certain financial performance criteria, subject to the manager's right to prevent such termination by making specified payments to the lessee based upon the shortfall in such criteria.

- Assignment of management agreements. The management agreements applicable to each hotel have been assigned to the applicable lessee for the term of the lease of such hotel. As previously discussed, virtually all of our full-service hotels were leased to Crestline during 1999 and 2000, and are now leased to subsidiaries of our wholly-owned TRS as a result of our acquisition of the Crestline Lessee Entities during January 2001. The lessee is obligated to perform all of the obligations of the lessor under the management agreement during the term of its lease, other than specified retained obligations including, without limitation, payment of real property taxes, property casualty insurance and ground rent, and maintaining a reserve fund for FF&E replacements and capital expenditures, for which the lessor retains

responsibility. Although the lessee has assumed obligations of the lessor under the management agreement, the lessor is not released from its obligations and, if the lessee fails to perform any obligations, the manager will be entitled to seek performance by or damages from the lessor. If the lease is terminated for any reason, any new or successor lessee must meet certain requirements for an approved lessee or otherwise be acceptable to the manager.

Non-competition agreements

We agreed with Crestline that until December 31, 2003, we would not purchase, finance or otherwise invest in senior living communities, or act as an agent or consultant with respect to any of the foregoing activities, except for acquisitions of communities which represent an immaterial portion of a merger or similar transaction or for minimal portfolio investments in other entities. In connection with the acquisition of the Crestline Lessee Entities, the non-competition agreement was terminated effective January 1, 2001 and thereafter.

We agreed with Marriott International that until June 21, 2007, we would not operate, manage or franchise (as franchisor) senior living facilities or invest, finance or act as an agent or consultant with respect to any of the foregoing activities, except for acquisitions of entities engaged in such operating, management or franchising activities if such activities are terminated or divested within 12 months of such acquisition or for minimal portfolio investments in such entities and except for operating or managing senior living facilities for a transitional period or up to 12 months in connection with a change in the operator or manager of such facility.

Risk Factors

The following risk factors should be carefully considered by prospective investors.

Risks relating to redemption of OP Units

A holder who redeems OP Units may have adverse tax effects. A holder of OP Units who redeems OP Units will be treated for tax purposes as having sold the OP Units. The sale will be taxable and the holder will be treated as realizing an amount equal to the sum of the value of the common stock or cash the holder receives plus the amount of operating partnership nonrecourse liabilities allocable to the redeemed OP Units. It is possible that the amount of gain the holder recognizes could exceed the value of the common stock the holder receives. It is even possible that the tax liability resulting from this gain could exceed the value of the common stock or cash the holder receives.

If a holder of OP Units redeems OP Units, the original receipt of the OP Units may be subject to tax. If a holder of OP Units redeems OP Units, particularly within two years of receiving them, there is a risk that the original receipt of the OP Units may be treated as a taxable sale under the "disguised sale" rules of the Internal Revenue Code. Subject to several exceptions, the tax law generally provides that a partner's contribution of property to a partnership and a simultaneous or subsequent transfer of money or other consideration from the partnership to the partner will be presumed to be a taxable sale. In particular, if money or other consideration is transferred by a partnership to a partner within two years of the partner's contribution of property, the transactions are presumed to be a taxable sale of the contributed property unless the facts and circumstances clearly establish that the transfers are not a sale. On the other hand, if two years have passed between the original contribution of property and the transfer of money or other consideration, the transactions will not be presumed to be a taxable sale unless the facts and circumstances clearly establish that they should be.

Differences between an investment in shares of common stock and OP Units may affect redeeming holders of OP Units. If a holder of OP Units elects to redeem OP Units, we will determine whether the holder receives cash or shares of our common stock in exchange for the OP Units. Although an investment in shares of our common stock is substantially similar to an investment in OP Units, there are some differences between

ownership of OP Units and ownership of common stock. These differences include form of organization, management structure, voting rights, liquidity and federal income taxation, some of which may be material to investors.

There are possible differing fiduciary duties of Host Marriott, as the general partner, and the Board of Directors of Host Marriott. Host Marriott, as the general partner of the operating partnership, and the Board of Directors of Host Marriott, respectively, owe fiduciary duties to their constituent owners. Although some courts have interpreted the fiduciary duties of the Board of Directors in the same way as the duties of a general partner in a limited partnership, it is unclear whether, or to what extent, there are differences in such fiduciary duties. It is possible that the fiduciary duties of the directors of Host Marriott to the shareholders may be less than those of Host Marriott, as the general partner of the operating partnership, to the holders of OP Units.

Risks of ownership of Host REIT common stock

There are limitations on the acquisition of Host REIT common stock and changes in control. The charter and bylaws of Host REIT, our partnership agreement, Host REIT's shareholder rights plan and the Maryland General Corporation Law contain a number of provisions that could delay, defer or prevent a transaction or a change in control of Host REIT that might involve a premium price for Host REIT's shareholders or otherwise be in their best interests, including the following:

Ownership limit. The 9.8% ownership limit described under "--There are possible adverse consequences of limits on ownership of our common stock" below may have the effect of precluding a change in control of Host REIT by a third party without the consent of Host REIT's Board of Directors, even if such change in control would be in the interest of Host REIT's shareholders, and even if such change in control would not reasonably jeopardize Host REIT's REIT status.

Staggered board. Host REIT's charter provides that Host REIT's Board of Directors will consist of nine members and can be increased or decreased after that according to Host REIT's bylaws, provided that the total number of directors is not less than three nor more than 13. Pursuant to Host REIT's bylaws, the number of directors will be fixed by Host REIT's Board of Directors within the limits in Host REIT's charter. Host REIT's Board of Directors is divided into three classes of directors. Directors for each class are chosen for a three-year term when the term of the current class expires. The staggered terms for directors may affect Host REIT shareholders' ability to effect a change in control of Host REIT, even if a change in control would be in the interest of Host REIT's shareholders. Currently, there are nine directors.

Removal of board of directors. Host REIT'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 Host REIT's common stock, directors may be removed only for cause and only by the affirmative vote of Host REIT shareholders holding at least two-thirds of Host REIT's outstanding shares 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 and, in the case of a vacancy resulting from the removal of a director by the shareholders, 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 shareholder approval. Host REIT's charter provides that the total number of shares of stock of all classes which Host REIT has 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, of which 8,160,000 have been issued. Host REIT's Board of Directors has the authority, without a vote of its shareholders, 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. The issuance of preferred shares or other shares having special preferences or rights could delay or prevent a change in control even if a change in control would be in the interests of Host REIT's shareholders. Because Host REIT's Board of Directors has the power to establish the preferences and rights of additional classes or series of shares without a shareholder vote, Host REIT's Board of Directors may give the holders of any class or series preferences, powers and rights, including voting rights, senior to the rights of holders of Host REIT's common stock.

Consent rights of the limited partners. Under our partnership agreement, Host REIT generally will be able to merge or consolidate with another entity with the consent of partners holding 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 Host REIT, as long as the holders of limited partnership interests either receive or have the right to receive the same consideration as Host REIT shareholders. Host REIT, as holder of a majority of the limited partnership interests, would be able to control the vote. Under Host REIT's charter, holders of at least two-thirds of Host REIT's outstanding shares of common stock generally must approve the 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 "interested shareholder," or an affiliate of the interested shareholder are prohibited for five years after the most recent date in which the interested shareholder becomes an interested shareholder. Thereafter, any such business combination must be approved by 80% of outstanding voting shares, and by two-thirds of voting shares other than voting shares held by an interested shareholder unless, among other conditions, the corporation's common shareholders 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 shareholder. Host REIT 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 and by officers or directors who are employees of the corporation. "Control shares" are voting shares which, if aggregated with all other such shares previously acquired by the acquiror or in respect of 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-fifth 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 shareholder approval. A "control share acquisition" means the acquisition of control shares, subject to specified exceptions. Host REIT is subject to these control share provisions of Maryland law, subject to an exemption for Marriott International pursuant to its purchase right. See "Risks of ownership of our common stock--Marriott International purchase right."

Merger, consolidation, share exchange and transfer of Host REIT's assets. Pursuant to Host REIT's charter, subject to the terms of any outstanding class or series of capital stock, Host REIT can merge with or into another entity, consolidate with one or more other entities, participate in a share exchange or transfer our assets within the meaning of the Maryland General Corporation Law if approved (1) by Host REIT's Board of Directors in the manner provided in the Maryland General Corporation Law and (2) by Host REIT's shareholders holding two-thirds of all the votes entitled to be cast on the matter, except that any merger of Host REIT with or into a trust organized for the purpose of changing its form of organization from a corporation to a trust requires only the approval of Host REIT's shareholders 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 shareholders and a share exchange is only required to be approved by a Maryland corporation by its Board of Directors. Host REIT's voluntary dissolution also would require approval of shareholders holding two-thirds of all the votes entitled to be cast on the matter.

Amendments to Host REIT's charter and bylaws. Host REIT's charter contains provisions relating to restrictions on transferability of Host REIT's common stock, the classified Board of Directors, fixing the size of Host REIT's Board of Directors within the range set forth in Host REIT's 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 Host REIT's shareholders holding two-thirds of the votes entitled to be cast on the matter. As permitted under the Maryland General Corporation Law, Host REIT's charter and bylaws provide that directors have the exclusive right to amend Host REIT's bylaws. Amendments of this provision of Host REIT's charter also would require action of Host REIT's Board of Directors and approval by shareholders holding two-thirds of all the votes entitled to be cast on the matter.

Marriott International purchase right. As a result of our spin-off of Marriott International in 1993, Marriott International has the right to purchase up to 20% of each class of Host REIT's outstanding voting shares at the then fair market value when specific change of control events involving Host REIT occur, subject to specified limitations to protect Host REIT's REIT status. The Marriott International purchase right may have the effect of discouraging a takeover of Host REIT, because any person considering acquiring a substantial or controlling block of Host REIT's common stock will face the possibility that its ability to obtain or exercise control would be impaired or made more expensive by the exercise of the Marriott International purchase right.

Shareholder rights plan. Host REIT adopted a shareholder rights plan which provides, among other things, that when specified events occur, their shareholders will be entitled to purchase from Host REIT a newly created series of junior preferred shares, subject to Host REIT's ownership limit described below. The preferred share 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 Host REIT'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 Host REIT's outstanding common stock. The preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire Host REIT on terms not approved by Host REIT's Board of Directors.

There are possible adverse consequences of limits on ownership of Host REIT common stock. To maintain its qualification as a REIT for federal income tax purposes, not more than 50% in value of Host REIT'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 Host REIT, or a tenant of any partnership in which Host REIT is a partner, cannot own, directly or by attribution, 10% or more of Host REIT's shares without jeopardizing Host REIT's qualification as a REIT. Primarily to facilitate maintenance of Host REIT's qualification as a REIT for federal income tax purposes, the ownership limit under Host REIT'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% of the issued and outstanding shares of Host REIT's common stock, subject to an exception for shares of Host REIT's common stock held prior to the REIT conversion so long as the holder would not own more than 9.9% in value of Host REIT's outstanding shares after the REIT conversion, and 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% of the issued and outstanding shares of any class or series of Host REIT's preferred shares. Together, these limitations are referred to as the "ownership limit." Host REIT's Board of Directors, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as "individuals" for purposes of the Internal Revenue Code if it is satisfied, based upon information required to be provided by the party seeking the waiver and upon an opinion of counsel satisfactory to Host REIT's Board of Directors, that ownership in excess of this limit will not cause a person who is an individual to be treated as owning shares in excess of the ownership limit, applying the applicable constructive ownership rules, and will not otherwise jeopardize Host REIT's status as a REIT for federal income tax purposes (for example, by causing any of Host REIT's tenants to be considered a "related party tenant" for purposes of the REIT qualification rules). Common 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 such common stock in violation of the ownership limit will not be entitled to any

distributions thereon, to vote such shares of common stock or to receive any proceeds from the subsequent sale thereof in excess of the lesser of the price paid therefor or the amount realized from such sale. A transfer of shares of Host REIT's common 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 Host REIT's common stock in excess of the ownership limit. The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect the shareholders' ability to realize a premium over the then-prevailing market price for Host REIT's common stock in connection with such transaction.

We depend on external sources of capital for future growth. As with other REITs, but unlike corporations generally, Host REIT's and our ability to reduce our debt and finance our growth largely must be funded by external sources of capital because Host REIT generally will have to distribute to its shareholders 90% of its taxable income in order to qualify as a REIT, including taxable income where it does not receive corresponding cash. For taxable years prior to January 1, 2001, Host REIT was required to distribute 95% of its taxable income to qualify as a REIT. Our access to external capital will depend upon a number of factors, including general market conditions, the market's perception of our growth potential, our current and potential future earnings, cash distributions and the market price of Host REIT's common stock. Currently, our access to external capital has been limited to the extent that Host REIT's common stock is trading at what we believe is a discount to its estimated net asset value.

Shares of Host REIT common stock that are or become available for sale could affect the price for shares of Host REIT common stock. Sales of a substantial number of shares of Host REIT's common stock, or the perception that sales could occur, could adversely affect prevailing market prices for Host REIT's common stock. In addition, holders of our outside OP Units, who redeem their OP Units and receive common stock will be able to sell such shares freely, unless the person is our affiliate and resale of such affiliate's shares is not covered by an effective registration statement. There are currently approximately 50.7 million outside OP Units outstanding, all of which are currently redeemable. Further, a substantial number of shares of Host REIT'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 Host REIT's common stock reserved for options, and these shares of common stock would be available for sale in the public markets from time to time pursuant to exemptions from registration or upon registration. Moreover, the issuance of additional shares of Host REIT's common stock by us in the future would be available for sale in the public markets. We can make no prediction about the effect that future sales of Host REIT's common stock would have on the market price of Host REIT's common stock.

Host REIT's earnings and cash distributions will affect the market price of shares of Host REIT 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 Host REIT'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 such cash flow to Host REIT's shareholders, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of Host REIT's common stock. Host REIT's failure to meet the market's expectation with regard to future earnings and cash distributions would likely adversely affect the market price of Host REIT's common stock.

Market interest rates may affect the price of shares of Host REIT's common stock. One of the factors that investors consider important in deciding whether to buy or sell shares of a REIT is the distribution rate on such shares, considered as a percentage of the price of such 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 Host REIT's shares to go down.

Risks of operation

We do not control our hotel operations, and we are dependent on the managers of our hotels. Because federal income tax laws currently restrict REITs and "publicly traded" partnerships from deriving revenues directly from operating a hotel, we do not manage our hotels. Instead, we retain managers to manage our hotels pursuant to management agreements. Our income from the hotels may be adversely affected if the managers fail to provide quality services and amenities and competitive room rates at our hotels or fail to maintain the quality of the hotel brand names. While we employ very aggressive asset management techniques to oversee the managers' performance, we have limited specific recourse if we believe that the hotel managers do not maximize the revenues from our hotels or control expenses, which in turn will maximize our results of operations and EBITDA on a consolidated basis.

Our relationship with Marriott International may result in conflicts of interest. Marriott International, a public hotel management company, manages a significant number of our hotels. In addition, Marriott International manages and in some cases may own or be invested in hotels that compete with our hotels. As a result, Marriott International may make decisions regarding competing lodging facilities which it manages that would not necessarily be in our best interests. J.W. Marriott, Jr. is a member of our Board of Directors and his brother, Richard E. Marriott, is our Chairman of the Board. Both J.W. Marriott, Jr. and Richard E. Marriott serve as directors, and J.W. Marriott, Jr. also serves as an officer, of Marriott International. J.W. Marriott, Jr. and Richard E. Marriott beneficially own, as determined for securities law purposes, as of January 31, 2001, approximately 12.6% and 12.2%, respectively, of the outstanding shares of common stock of Marriott International. As a result, J.W. Marriott, Jr. and Richard E. Marriott have potential conflicts of interest as our directors when making decisions regarding Marriott International, including decisions relating to the management agreements involving the hotels and Marriott International's management of competing lodging properties.

Both our Board of Directors and the Board of Directors of Marriott International follow appropriate policies and procedures to limit the involvement of Messrs. J.W. Marriott, Jr. and Richard E. Marriott in conflict situations, including requiring them to abstain from voting as directors of either us or Marriott International or our or their subsidiaries on matters which present a conflict between the companies. If appropriate, these policies and procedures will apply to other directors and officers.

We have substantial indebtedness. Our degree of leverage could affect our ability to:

- obtain financing in the future for working capital, capital expenditures, acquisitions, development or other general business purposes;
- undertake financings on terms and conditions acceptable to us;
- pursue our acquisition strategy; or
- compete effectively or operate successfully under adverse economic conditions.

If our cash flow and working capital are not sufficient to fund our expenditures or service our indebtedness, we would have to raise additional funds through:

- the sale of equity;
- the refinancing of all or part of our indebtedness;
- the incurrence of additional permitted indebtedness; or
- the sale of assets.

We cannot assure you that any of these sources of funds would be available in amounts sufficient for us to meet our obligations or fulfill our business plans. Additionally, our debt contains performance related covenants that, if not achieved, could require immediate repayment of our debt or significantly increase the rate of interest on our debt.

There is no limitation on the amount of debt we may incur. There are no limitations in our organizational documents or the operating partnership's organizational documents that limit the amount of indebtedness that we may incur. However, our existing debt instruments contain restrictions on the amount of indebtedness that we may incur. Accordingly, we could incur indebtedness to the extent permitted by our debt agreements. If we became more highly leveraged, our debt service payments would increase and our cash flow and our ability to service our debt and make distributions to our shareholders would be adversely affected.

Our management agreements could impair the sale or other disposition of our hotels. Under the terms of the management agreements, we generally may not sell, lease or otherwise transfer the hotels unless the transferee assumes the related management agreements and meets specified other conditions. Our ability to finance, refinance or sell any of the properties may, depending upon the structure of such transactions, require the manager's consent. If the manager did not consent, we would be prohibited from financing, refinancing or selling the property 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 federal income tax considerations of the former owners of some of our hotels, we agreed to restrictions on selling some hotels or repaying or refinancing the mortgage debt on those hotels for varying periods depending on the hotel. 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 or refinance the mortgage debt on these hotels, it may be difficult or impossible to do so during their respective lock-out periods.

Our ground lease payments may increase faster than the revenues we receive on the hotels. As of January 31, 2001, we leased 46 of our hotels pursuant to ground leases. These ground leases generally require increases in ground rent payments every five years. Our ability to make distributions to shareholders could be adversely affected to the extent that our revenues do not increase at the same or a greater rate as the increases 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 could result in a lower sales price. Moreover, to the extent that such ground leases are not renewed at their expiration, our revenues could be adversely affected.

New acquisitions may fail to perform as expected or we may be unable to make acquisitions on favorable terms. We intend to acquire additional full-service hotels. Newly acquired properties may fail to perform as expected, which could adversely affect our financial condition. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position. We expect to acquire hotels with cash from secured or unsecured financings and proceeds from offerings of equity or debt, to the extent available. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. Competition for attractive investment opportunities may increase prices for hotel properties, thereby decreasing the potential return on our investment.

We may be unable to sell properties when appropriate 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 ability to service debt and make distributions to shareholders. In addition, there are limitations under the federal tax laws applicable to REITs and agreements that we have entered into when we acquired some of our properties that may limit our ability to recognize the full economic benefit from a sale of our assets.

Our revenues and the value of our properties are subject to conditions affecting the lodging industry. If our assets do not generate income sufficient to pay our expenses, service our debt and maintain our properties, we will be unable to make distributions to our shareholders. Our revenues and the value of our properties are subject to conditions affecting the lodging industry. These include:

. changes in the national, regional and local economic climate;

- local conditions such as an oversupply of hotel properties or a reduction in demand for hotel rooms;

- the attractiveness of our hotels to consumers and competition from comparable hotels;

- the quality, philosophy and performance of the managers of our hotels;

- changes in room rates and increases in operating costs due to inflation and other factors; and

- the need to periodically repair and renovate our hotels.

- Adverse changes in these conditions could adversely affect our financial performance.

Our expenses may remain constant even if our revenue drops. The expenses of owning property are not necessarily reduced when circumstances like market factors and competition cause a reduction in income from the property. If a property is mortgaged and we are unable to meet the mortgage payments, the lender could foreclose and take the property. Our financial condition could be adversely affected by:

- interest rate levels;

- the availability of financing;

- the cost of compliance with government regulation, including zoning and tax laws; and

- changes in governmental regulations, including those governing usage, zoning and taxes.

We depend on our key personnel. We depend on the efforts of our executive officers and other key personnel. 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 operations. We do not intend to obtain key-man life insurance with respect to any of our personnel.

Partnership and other litigation judgments or settlements could have a material adverse effect on our financial condition. We and the operating partnership are parties to various lawsuits relating to previous partnership transactions, including the REIT conversion. 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. In connection with the REIT conversion, the operating partnership has assumed all liability arising under legal proceedings filed against us and will indemnify us as to all such matters. If any of the lawsuits were to be determined adversely to us or settlement involving a payment of a material sum of money were to occur, there could be a material adverse effect on our financial condition.

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. Joint venturers often share control over the operation of the joint venture assets. 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 interests or goals;

- our co-venturers may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or

- a joint venture partner 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, they notify and train those who may come into contact with asbestos and 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 also be costly. Our hotels are subject to various 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 or unexpected costs of compliance. Any increased costs could reduce the cash available for servicing debt and making distributions to our shareholders.

Some potential losses are not covered by insurance. We carry comprehensive liability, fire, flood, extended coverage and rental loss, for rental losses extending up to 12 months, insurance with respect to all of our hotels. We believe the policy specifications and insured limits of these policies are of the type customarily carried for similar hotels. Some types of losses, such as from earthquakes and environmental hazards, however, may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, 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.

Federal income tax risks

General. We believe that Host REIT has been organized and has operated in such a manner so as to qualify as a REIT under the Internal Revenue Code, commencing with the taxable year beginning January 1, 1999. A REIT generally is not taxed at the corporate level on income it currently distributes to its shareholders as long as it distributes at least 90% of its taxable income, excluding net capital gain. No assurance can be provided, however, that Host REIT will qualify 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 such qualification.

Required distributions and payments. To continue to qualify as a REIT, Host REIT currently is required each year to distribute to its shareholders at least 90% of its taxable income, excluding net capital gain (for taxable years that ended prior to January 1, 2001, Host REIT was required to distribute at least 95% of this amount to so qualify). Due to some transactions entered into in years prior to the REIT conversion, we expect to recognize substantial amounts of "phantom" income, which is taxable income that is not matched by cash flow or EBITDA to us. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income and 95% of our capital gain net income for that year and any undistributed taxable income from prior periods. Host REIT intends to make distributions to its shareholders to comply with the distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from us. However, differences in timing between taxable income and 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 could require us to borrow funds or Host REIT to issue additional equity to enable us to meet the distribution requirement and, therefore, to maintain Host REIT's REIT status, and to avoid the nondeductible excise tax. We are required to pay, or reimburse Host REIT, as general partner, for some taxes and other liabilities and expenses that Host REIT incurs, including all taxes and liabilities attributable to periods and events prior to the REIT conversion. In addition, because the REIT distribution requirements prevent Host REIT 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 these sources of funds, if available at all, would be sufficient to meet the distribution and tax obligations.

Adverse consequences of our failure to qualify as a REIT. If we fail to qualify as a REIT, we will be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. In addition, unless entitled to statutory relief, we will not qualify as a REIT for the four taxable years following the year during which REIT qualification is lost. The additional tax burden on us would significantly reduce the cash available for distribution by us to our shareholders and we would no longer be required to make any distributions to shareholders. Our failure to qualify as a REIT could reduce materially the value of our common stock and would cause any distributions to shareholders that otherwise would have been subject to tax as capital gain dividends to be taxable as ordinary income to the extent of our current and accumulated earnings and profits, or E&P. However, subject to limitations under the Internal Revenue Code, corporate distributees may be eligible for the dividends received deduction with respect to our distributions. Our failure to qualify as a REIT also would result in a default under our senior notes and our credit facility.

Our earnings and profits attributable to our non-REIT taxable years. In order to qualify as a REIT, we cannot have at the end of any taxable year any undistributed E&P that is attributable to one of our 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 such accumulated E&P. We were required to have distributed this E&P prior to the end of 1999, the first taxable year for which our REIT election was effective. If we failed to do this, we will be disqualified as a REIT at least for taxable year 1999. We believe that distributions of non-REIT E&P that we made were sufficient to distribute all of the non-REIT E&P as of December 31, 1999, but there could be uncertainties relating to the estimate of our non-REIT E&P and the value of the Crestline stock that we distributed to our shareholders. Therefore, we cannot guarantee that we met this requirement.

Treatment of leases. To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our 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, taking into account both the terms of the leases and the expectations that we and the lessees have with respect to the leases, 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. If the leases were not respected as true leases for federal income tax purposes or if the lessees were regarded as "related party tenants," we would not be able to satisfy either of the two gross income tests applicable to REITs and we would lose our REIT status. See "--Adverse consequences of our failure to qualify as a REIT" above.

For our taxable years beginning on and after January 1, 2001, as a result of the REIT Modernization Act, 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." Accordingly, effective January 1, 2001, HMT Lessee, a newly created, wholly owned subsidiary of the operating partnership, directly or indirectly acquired all but one of the full-service hotel leasehold interests formerly held by Crestline. So long as HMT Lessee and other affiliated lessees qualify as taxable REIT subsidiaries of ours, they will not be treated as "related party tenants." We believe that HMT 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 HMT Lessee from treatment as a taxable REIT subsidiary, we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests and, accordingly, we would cease to qualify as a REIT. See "--Adverse consequences of our failure to qualify as a REIT" above.

Other tax liabilities; our substantial deferred and contingent tax liabilities. Notwithstanding our status as a REIT, we are subject, through our ownership interest in the operating partnership, to certain federal, state and local taxes on our income and property. In addition, we will be required to pay federal tax at the highest regular corporate rate, currently 35%, upon our 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 our first taxable year as a REIT. At the time of the REIT conversion, we expected that we or a non-controlled subsidiary likely would recognize substantial built-in gain and deferred tax liabilities in the next ten years without any corresponding receipt of cash by us or the operating partnership. We recognized a substantial amount of these built-in gains and deferred tax liabilities in 1999 and paid tax thereon at the applicable corporate rates. Accordingly, our potential tax exposure on these gains and deferred liabilities for the future is significantly less than it was at the time of our REIT conversion. In addition, because not all states treat REIT's the same as they are treated for federal income tax purposes, we may have to pay certain state income taxes, notwithstanding our status as a REIT. The operating partnership is obligated under its partnership agreement to pay all such taxes incurred by us, as well as any liabilities that the IRS may assert against us for corporate income taxes for taxable years prior to the time we qualified as a REIT. The non-controlled subsidiaries and any of our taxable REIT subsidiaries, including HMT Lessee, are taxable as corporations and will pay federal and state income tax on their net income at the applicable corporate rates.

The operating partnership's failure to qualify as a partnership. We believe that the operating partnership qualifies to be treated as a partnership for federal income tax purposes. 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, we would fail to meet two of the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. See "--Adverse consequences of our failure to qualify as a REIT" above. Also, the imposition of a corporate tax on the operating partnership would reduce significantly the amount of cash available for distribution to its limited partners, including us. Finally, the classification of the operating partnership as a corporation would cause us to recognize gain at least equal to our "negative capital accounts," and possibly more, depending upon the circumstances.

REIT Modernization Act changes to the REIT asset tests. Subject to the exceptions discussed in this paragraph, a REIT is prohibited from owning securities in any one issuer if 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, for taxable years beginning on or after January 1, 2001, more than 10% of the value of the issuer's outstanding securities. For taxable years beginning on or after January 1, 2001, as a result of the REIT Modernization Act, a REIT is permitted to own securities of a subsidiary that exceed the 5% value test and the 10% vote or value test if the subsidiary elects to be a "taxable REIT subsidiary," which is taxable as a corporation. 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. Effective January 1, 2001, each of the non-controlled subsidiaries and HMT Lessee has elected to be treated as a taxable REIT subsidiary.

Several provisions of the REIT Modernization Act 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.

We 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. The operating partnership intends that it and its subsidiaries 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 the operating partnership's 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, particularly if the hotels that are sold have been held for a relatively short period of time.

Item 3. Legal Proceedings

In connection with the REIT Conversion, we assumed all liability arising under legal proceedings filed against Host REIT and will indemnify Host REIT as to all such matters. 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.

Marriott Hotel Properties II Limited Partnership (MHP). Limited partners of MHP II have filed putative class action lawsuits in Palm Beach County Circuit Court on May 10, 1996, Leonard Rosenblum, as Trustee of the Sylvia Bernice Rosenblum Trust, et. al. v. Marriott MHP Two Corporation, et. al., Case No. CL-96-4087-AD, and, in the Delaware Court of Chancery on April 24, 1996, Cary W. Salter, Jr., et. al. v. MHP II Acquisition Corp., et. al., respectively, against Host REIT and certain of its affiliates alleging that the defendants violated their fiduciary duties and engaged in fraud and coercion in connection with the 1996 tender offer for MHP II units and with our acquisition of MHP II in connection with the 1998 REIT conversion. The plaintiffs in these actions are seeking unspecified damages.

In the Florida case, the defendants removed the case to the United States District Court for the Southern District of Florida and, after hearings on various procedural motions, the District Court remanded the case to state court on July 25, 1998. In light of the court's decision in the Delaware case, detailed below, the defendants in the Florida action filed a supplemental memorandum in support of their motions to dismiss, and attached a copy of the Delaware opinion to the memorandum. The Florida court has not yet ruled on the motions.

In the Delaware case, the Delaware Court of Chancery initially granted the plaintiffs' motion to voluntarily dismiss the case with the proviso that the plaintiffs could refile in the aforementioned action in federal court in Florida. After the District Court's remand of the Florida action back to Florida state court, two of the three original Delaware plaintiffs asked the Court of Chancery to reconsider its order granting their voluntary dismissal. The Court of Chancery refused to allow the plaintiffs to join the Florida action and, instead, reinstated the Delaware case, now styled In Re Marriott Hotel Properties II Limited Partnership Unitholders Litigation, Consolidated Civil Action No. 14961. On January 29, 1999, Cary W. Salter, one of the original plaintiffs, alone filed an Amended Consolidated Class Action Complaint in the Delaware action. On January 24, 2000, the Delaware Court of Chancery issued a memorandum opinion in which the court dismissed all but one of the plaintiff's claims, which remaining claim concerns the adequacy of disclosure during the initial tender offer. This claim remains pending.

A subsequent lawsuit, Accelerated High Yield Growth Fund, Ltd., et al. v. HMC Hotel Properties II Limited Partnership, et. al., C.A. No. 18254NC, was filed on August 23, 2000 in the Delaware Court of Chancery by the MacKenzie Patterson group of funds, one of the three original Delaware plaintiffs, against Host REIT and certain of its affiliates alleging breach of contract, fraud and coercion in connection with the acquisition of MHP II

during the 1998 REIT conversion. The plaintiffs allege that our acquisition of MHP II by merger in connection with the REIT conversion violated the partnership agreement and that our subsidiary acting as the general partner of MHP II breached its fiduciary duties by allowing it to occur. The plaintiffs in this action are seeking unspecified damages.

Marriott Suites Limited Partnership (MSLP). On December 10, 1999, KSK Hawaii Co., Ltd. ("KSK"), a limited partner in MSLP, filed a lawsuit, KSK Hawaii Co., Ltd. v. Marriott SBM One Corporation, et al., Civil Action No. 17657-NC, in the Delaware Court of Chancery. KSK alleges that we and our subsidiary, the general partner of MSLP, breached fiduciary duties to KSK through a recapitalization of the partnership in 1996 and through a merger of the partnership in 1998. KSK contends that it was coerced into selling 19 of its 20 partnership units in 1996 and that it was further harmed by the 1998 merger, in which its remaining interest in the partnership was eliminated. KSK's complaint also alleges that the recapitalization and merger involved fraud and breaches of the partnership agreement. This matter was recently settled in a manner which will have no material impact on our financial statements and the lawsuit will be dismissed.

Mutual Benefit Chicago Marriott Suite Hotel Partners, L.P. ("O'Hare Suites"). On October 5, 2000, Joseph S. Roth and Robert M. Niedelman, limited partners in O'Hare Suites, filed a putative class action lawsuit, Joseph S. Roth, et al., v. MOHS Corporation, et al., Case No. 00CH14500, in the Circuit Court of Cook County, Illinois, Chancery Division, against Host REIT, Host LP, Marriott International, and MOHS Corporation, a subsidiary of Host LP and a former general partner of O'Hare Suites. The plaintiffs allege that an improper calculation of the hotel manager's incentive management fees resulted in inappropriate payments in 1997 and 1998, and, consequently, in an inadequate appraised value for their limited partner units in connection with the acquisition of O'Hare Suites during the 1998 REIT conversion. The plaintiffs are seeking damages of approximately $13 million. The defendants have filed motions to dismiss this case and are awaiting rulings on these motions.

Tampa Waterside Hotel. On January 23, 2001, Tampa Convention Hotel Associates, Inc. ("TCHA") filed a lawsuit, Tampa Convention Hotel Associates, Inc. v. The City of Tampa, Florida, et al., Case No. 01000668, Division G, in the Circuit Court for Hillsborough County, Florida against the City of Tampa (the "City"), Faison & Associates 2000, L.L.C. ("Faison"), Sodexho Marriott Services, Inc., f/k/a Marriott International, Inc. ("Marriott International"), Host REIT, and HMC Hotel Development LLC ("HMC Development"). TCHA was one of several groups who had submitted development proposals in response to the City's 1995 request for a proposal ("RFP") to develop a convention center hotel in downtown Tampa. Each of the proposals submitted was ranked under the terms of the RFP. The City's Hotel Review Committee ranked the TCHA proposal second, and commenced negotiations with the top-ranked bidder ("Faison/Sheraton"). Faison/Sheraton failed to fulfill certain contingencies by a May 27, 1997 deadline and the parties terminated their negotiations.

TCHA alleges that it relied on the May 27, 1997 deadline, and that the City engaged in negotiations with other bidders prior to its expiration to the detriment of TCHA. On May 29, 1997, the City cancelled the RFP. HMC Development subsequently entered into development agreements with the City to develop the convention center hotel in October of 1997, and closed on the Tampa hotel site in January of 1998.

TCHA is suing the City on promissory estoppel grounds for failing to comply with the Florida Sunshine Law by conducting private negotiations with the other defendants. TCHA alleges that the other defendants tortiously interfered with its business relationship with the City. TCHA is seeking unspecified actual, compensatory, and special damages. The City, Host REIT, and HMC Development have filed motions to dismiss this lawsuit. A hearing on these motions has not yet been set.

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

None

PART II

Item 5. Market for our OP Units and related unitholder matters

There is no established public trading market for our OP Units and transfers of OP Units are restricted by the terms of our partnership agreements. During 2000, quarterly cash distributions of $0.21, $0.21, $0.23, and $0.26 per OP Unit were declared on March 23, June 21, September 19, and December 18, 2000, respectively. The quarterly distributions were subsequently paid on April 14, July 14, and October 16, 2000, and January 12, 2001. During 1999, a quarterly cash distribution of $0.21 per OP Unit was declared on March 15, June 15, September 23, 1999, and December 20, 1999. The quarterly distributions were subsequently paid on April 14, July 14, and October 15, 1999, and January 17, 2000.

The number of holders of record of our OP Units on March 12, 2001 was 2,729. The number of outstanding OP Units was 284,705,092 as of March 12, 2001, of which 234,022,707 were owned by Host REIT.

Issuances of Unregistered Securities.

Unless stated otherwise, we acquired interests in partnerships owning hotel properties in connection with each of the following issuances of unregistered securities.

On December 30, 1998, we issued 25.8 million OP Units to various limited partners in the eight public partnership mergers and the four private partnerships in exchange for their existing partnership interests, which were valued at approximately $333 million. The issuance of OP Units was made in reliance on an exemption from the registration requirements of the Securities Act pursuant to Section 4(2). The OP Units issued are redeemable for the cash equivalent of a share of Host REIT's common stock or, at Host REIT's option, shares of its common stock, beginning on December 30, 1999.

Also on December 30, 1998, we issued approximately 43.9 million OP Units to the Blackstone Entities in part in exchange for the acquisition of, or controlling interests in, twelve hotels and one mortgage loan secured by an additional hotel. We issued approximately 3.8 million additional OP Units on March 31, 1999 to the Blackstone Entities. The issuance of OP Units was made in reliance on an exemption from the registration requirements of the Securities Act pursuant to Section 4(2) thereunder. The OP Units are redeemable for the cash equivalent of a share of Host REIT's common stock or, at Host REIT's option, shares of its common stock.

In December 1998, we issued approximately 205.3 million OP Units to Host Marriott and its subsidiaries in exchange for substantially all of Host Marriott's and its subsidiaries' assets (excluding the senior living business transferred to Crestline) and the assumption of substantially all of their liabilities. The number of OP Units issued to Host Marriott and its subsidiaries equalled the number of outstanding shares of Host Marriott's common stock. The issuance of OP Units was made in reliance on an exemption from the registration requirements for the Securities Act pursuant to Section 4(2).

In June 1999, we issued approximately 586,000 Class TS cumulative redeemable preferred OP Units to limited partners of Timewell Group, Ltd. and Timeport, Ltd for the acquisition of their limited partnership interests in Times Square Marquis Hotel, L.P., which owns the New York Marriott Marquis Hotel. The issuance of the preferred OP units was made in reliance on an exemption from the registration requirements for the Securities Act pursuant to Section 4(2). The preferred OP Units are redeemable for OP Units one year from the date of acquisition and are then immediately redeemable for cash, or at Host REIT's option, common shares of Host REIT. During 2000, the holders converted of all of the outstanding Class TS preferred OP Units to common OP Units.

In August 1999, Host REIT issued 4,160,000 shares of Class A cumulative redeemable preferred stock the proceeds of which were used to purchase 4,160,000 units of Class A cumulative redeemable preferred units.

Dividends on the preferred OP Units are payable quarterly in arrears at the rate of 10% per year. The issuance of the preferred OP Units was made in reliance on an exemption from the registration requirements for the Securities Act pursuant to Section 4(2).

In November 1999, Host REIT issued 4,000,000 shares of Class B cumulative redeemable preferred stock the proceeds of which were used to purchase 4,000,000 units of Class B cumulative redeemable preferred units. Dividends on the preferred OP Units are payable quarterly in arrears at the rate of 10% per year. The issuance of the preferred OP Units was made in reliance on an exemption from the registration requirements for the Securities Act pursuant to Section 4(2).

In December 1999, we issued approximately 26,000 Class AM cumulative redeemable preferred OP Units to limited partners of Hopewell Group, Ltd. for the acquisition of their limited partnership interests in Ivy Street Hotel Limited Partnership, which indirectly owns the Atlanta Marriott Marquis Hotel. The issuance of the preferred OP units was made in reliance on an exemption from the registration requirements for the Securities Act pursuant to Section 4(2). The preferred OP Units are redeemable for OP Units one year from the date of acquisition and are then immediately redeemable for cash, or at Host REIT's option, common shares of Host REIT. During 2000, holders of approximately 7,000 of the Class AM Preferred OP Units converted to common OP Units. Two years from the date of acquisition, Host REIT may require the holders to convert to OP Units.

Item 6. Selected Financial Data

The following table presents certain selected historical financial data of Host Marriott, the predecessor to Host REIT and the Operating Partnership, which has been derived from Host Marriott's audited consolidated financial statements for fiscal years 1996, 1997, and 1998, and our audited consolidated financial statements for the fiscal years ended December 31, 2000 and 1999.

The information contained in the following table for years prior to 1999 is not comparable to our 2000 and 1999 operations because the historical information for those years relates to an operating entity which owned and operated its hotels, while during 1999 and 2000 we owned the hotels but leased them to third-party lessees, receiving rental payments in connection therewith. As a result of the acquisition by our wholly-owned taxable REIT subsidiary of the Crestline entities owning the leasehold interests with respect to 116 of our full-service hotels, our consolidated operations beginning January 1, 2001 will present property-level revenues and expenses rather than rental income from lessees.

	Fiscal Year (1)(2)				
	2000	1999	1998(3)	1997(3)	1996
	(in millions, except per share data)				
Income Statement Data:					
Revenues(4)	$1,473	$1,376	$3,564	$2,875	$2,005
Income (loss) from continuing operations	203	256	194	47	(13)
Income (loss) before extraordinary items	203	256	195	47	(13)
Net income (loss)(5)	207	285	47	50	(13)
Net income (loss) available to common unitholders	187	279	47	50	(13)
Basic earnings (loss) per common unit:(6)					
Income (loss) from continuing operations	.64	.86	.90	.22	(.06)
Income (loss) before extraordinary items	.64	.86	.91	.22	(.06)
Net income (loss)	.66	.96	.22	.23	(.06)
Diluted earnings (loss) per common unit:(6)					
Income (loss) from continuing operations	.63	.83	.84	.22	(.06)
Income (loss) before extraordinary items	.63	.83	.85	.22	(.06)
Net income (loss)	.65	.93	.27	.23	(.06)
Cash distributions declared per common unit(7)	.91	.84	1.00	--	--
Balance Sheet Data:					
Total assets(8)	$8,391	$8,196	$8,262	$6,141	$5,152
Debt(9)	5,814	5,583	5,698	3,466	2,647
Convertible Preferred Securities	--	--	--	550	550
Other Data:					
Ratio of earnings to fixed charges and preferred stock distributions (see computation at Exhibit 12.1)	1.2x	1.5x	1.5x	1.3x	1.0x

- --------

(1) The Internal Revenue Code requires REITs to file their income tax return on a calendar year basis. Accordingly, in 1998 we changed our fiscal year end to December 31 for both financial and tax reporting requirements. Previously, our fiscal year ended on the Friday nearest to December 31. As a result of this change, the results of operations for 15 hotels not managed by Marriott International were adjusted in 1998 to include 13 months of operations (December 1997 through December 1998) and therefore are not comparable to fiscal years 1997 and 1996, each of which included 12 months of operations. The additional month of operations in 1998 increased our revenues by $44 million.

(2) Fiscal year 1996 includes 53 weeks. Fiscal years 1997, 1998, 1999 and 2000 include 52 weeks.

(3) The historical financial data for fiscal years 1998 and 1997 reflect as discontinued operations our senior living business that we formerly conducted but disposed of in the spin-off of Crestline as part of the REIT conversion. We recorded income from the discontinued operations, net of taxes, of $6 million in fiscal year 1998.

(4) Historical revenues for 2000 and 1999 primarily represent lease income generated by our leases, primarily with Crestline. Periods prior to 1999 represent gross hotel sales as our leases were not in effect until January 1, 1999. Revenues for fiscal years 1998, 1997 and 1996 have also been adjusted to reclassify interest income as revenue (previously classified as other income from operations) in order to be consistent with our 2000 and 1999 statement of operations presentation.

(5) During the fiscal year 2000, we recorded an extraordinary loss of $2 million in connection with the renegotiation of the bank credit facility, an extraordinary gain of $7 million on the extinguishment of $22 million of the convertible debt obligation to Host REIT, and an extraordinary loss of $1 million representing the write-off of deferred financing fees in connection with the repurchase of 0.4 million shares of Host REIT's Convertible Preferred Securities. In 1999, we recognized a $14 million extraordinary gain on the renegotiation of the management agreement for the New York Marriott Marquis, a net extraordinary gain of $5 million related to the refinancing of the mortgage debt for eight properties, a $2 million extraordinary loss related to prepayments on the bank credit facility, and a net extraordinary gain of $12 million on the extinguishment of $53 million of the convertible debt obligation to Host REIT, including the write-off of deferred financing fees in connection with the repurchase of 1.1 million shares of Convertible Preferred Securities. In 1998, we recognized a $148 million extraordinary loss, net of taxes, on the early extinguishment of debt. In 1997, we recognized a $3 million extraordinary gain, net of taxes, on the early extinguishment of debt.

(6) Basic earnings (loss) per common unit is computed by dividing net income (loss) by the weighted average number of OP Units outstanding. Diluted earnings (loss) per common unit is computed by dividing net income (loss) by the weighted average number of OP Units outstanding plus other dilutive securities. Diluted earnings (loss) per unit has not been adjusted for the impact of the Convertible Preferred Securities for 2000, 1999, 1997 and 1996 and for the comprehensive stock plan for 1996, as they are anti-dilutive.

(7) 2000 cash distributions per OP Unit reflect quarterly cash distributions of $0.21, $0.21, $0.23,and $0.26 per OP Unit paid on April 14, July 14, and October 16, 2000, and January 12, 2001, respectively. 1999 cash distributions per OP Unit reflect a quarterly cash distribution of $0.21 per OP Unit paid on April 14, July 14 and October 15, 1999 and January 17, 2000. 1998 cash distributions per OP Unit reflect the cash portion of a special distribution paid on February 10, 1999. This special distribution entitled shareholders of record on December 28, 1998 to elect to receive either $1.00 in cash or .087 of a share of common stock for each outstanding share of common stock owned by such shareholder on the record date. Cash totaling approximately $73 million and approximately 11.5 million Host REIT common shares were subsequently issued during 1999.

(8) Total assets for fiscal year 1997 include $236 million related to net investment in discontinued operations.

(9) Long-term obligations consist of long term debt (which includes senior notes, secured senior notes, mortgage debt, other notes, capital lease obligations, a revolving bank credit facility, and the convertible debt obligation to Host REIT).

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

Overview

Host Marriott, L.P. a Maryland corporation formerly named HMC Merger Corporation operating through an umbrella partnership structure, is the owner of hotel properties. Host REIT is our sole general partner and operates as a self-managed and self-administered REIT with its operations conducted solely through us and our subsidiaries. As of December 31, 2000, Host REIT owned approximately 78% of our outstanding OP Units. On February 7, 2001, certain limited partners converted 12.5 million OP Units to Host REIT common shares and immediately sold them to an underwriter for sale on the open market. As a result, Host REIT now owns approximately 82% our outstanding OP Units.

As of December 31, 2000, we owned, or had controlling interests in, 122 upscale and luxury, full-service hotel lodging properties generally located throughout the United States and operated primarily under the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Swissotel brand names.

In December 1999, the REIT Modernization Act was passed, effective for taxable years beginning after December 31, 2000, which significantly amends the REIT laws applicable to us. Prior to that time, REITs were restricted from deriving revenues directly from the operations of hotels. Thus, during 1999 and 2000 we leased substantially all of our hotels to subsidiaries of Crestline and other third-party lessees.

Under the REIT Modernization Act, beginning January 1, 2001, (i) we are now permitted to lease our hotels to a subsidiary that is a taxable corporation and that elects to be treated as a "taxable REIT subsidiary" rather than to a third party such as Crestline and (ii) we may own all of the voting stock of such TRS. Consequently, on November 13, 2000, we executed a definitive agreement with Crestline to terminate our lease arrangements through the purchase of the Crestline Lessee Entities that own the leasehold interests with respect to 116 of our full-service hotels. In connection therewith, during the fourth quarter of 2000 we recorded a non-recurring, pre-tax loss of $207 million net of a tax benefit of $82 million which we have recognized as a deferred tax asset because, for income tax purposes, the acquisition is recognized as an asset that will be amortized over the remaining term of the leases. We consummated the transaction effective January 1, 2001. Under the terms of the transaction, our wholly-owned subsidiary, which will elect to be treated as a TRS, acquired the Crestline Lessee Entities. Beginning in 2001, we will recognize the revenues and expenses generated by the hotels subject to the leases rather than rental income. The transaction simplifies our corporate structure, enables us to better control our portfolio of hotels, and is expected to be accretive to our future earnings and cash flows.

During February 2001, the Board of Directors of Host REIT approved the acquisition by our TRS of the interests in our non-controlled subsidiaries held by the Host Marriott Statutory Employee/Charitable Trust for approximately $2 million, which is also permitted as a result of the REIT Modernization Act. If the transaction is consummated, and there can be no assurance that it will be consummated, on a consolidated basis our results of operations will reflect the revenues and expenses generated by the two taxable corporations, and our consolidated balance sheets will include the various assets and related liabilities held by the two taxable corporations, which were $354 million and $245 million as of December 31, 2000. Approximately $26 million of the subsidiaries' debt principal matures during 2001. In addition, we will consolidate three additional full-service properties, one located in Missouri, and two located in Mexico City, Mexico.

During the year, we focused on maintaining the strength and flexibility of our balance sheet in order to allow us the opportunity to selectively choose investment alternatives that will further enhance shareholder value.

- During 1999 and the first quarter of 2000, our primary use of free cash flow and asset sales proceeds was the funding of Host REIT's stock buyback program. In the aggregate, we spent approximately $150 million for a total reduction of 16.2 million equivalent units on a fully diluted basis.

- During June 2000, we modified our bank credit facility in order to provide the company greater financial flexibility. As modified, the total facility has been permanently reduced to $775 million, and the original term was extended for two additional years.

- In October 2000, we issued $250 million 9 1/4% Series F senior notes due in 2007, which were exchanged for Series G senior notes in March 2001.

- During March 2001, Host REIT issued 5.2 million shares of 10% Class C preferred stock, for net proceeds of $125.8 million, and we issued an equivalent security, the Class C Preferred Limited Partner Units.

We and Marriott International closed on the settlement with plaintiffs to resolve specific litigation involving seven limited partnerships in which we acted as general partner. The settlement involved an acquisition during the fourth quarter of 2000, of the limited partner interests in two partnerships by a joint venture between one of our affiliates and a subsidiary of Marriott International, the contribution by our non-controlled subsidiaries of their general partnership interests in the partnerships and cash payments to partners in the other five partnerships, in exchange for resolution of claims against all defendants in all seven partnerships. Our total share of the cash required to resolve the litigation, including amounts paid by our non-controlled subsidiary, was approximately $112 million. As a result of the settlement, we recorded a one-time non-recurring, pre-tax charge of $40 million in the fourth quarter of 1999.

Results of Operations

Our historical revenues for 2000 and 1999 represent rental income on leases, net gains on property transactions, interest income and equity in earnings affiliates. Expenses represent specific owner costs including real estate and property taxes, property insurance and ground and equipment rent. For 1998, we reported gross property level sales from our hotels and, accordingly, our expenses included all property level costs including depreciation, management fees, real and personal property taxes, ground building and equipment rent, property insurance and other costs. Beginning January 1, 2001, we will again report the gross property level results from our hotels as a result of changes in the REIT tax laws and the subsequent acquisition by the TRS of the Crestline Lessee Entities. As a result, our 2001 results will not be comparable to the historical reported amounts for 2000 and 1999. In order to provide a clearer understanding and comparability of our results of operations we have presented unaudited pro forma statements of operations for 2000 and 1999, adjusted to reflect the acquisition of the Crestline Lessee Entities as if it occurred on January 1, 1999, and a discussion of the results thereof beginning on page 39 in addition to our discussion of the historical results.

2000 Compared to 1999 (Historical)

Revenues. Revenues increased $97 million, or 7%, to approximately $1.5 billion for 2000. Gross hotel sales, which is used in the determination of rental income for 2000, increased $231 million or 5% over 1999 amounts as is shown in the following table.

	Year Ended	
	December 31, 2000	December 31, 1999
	(in millions)	
Hotel Sales(1)		
Rooms	$2,877	$2,725
Food and beverage	1,309	1,258
Other	323	295
Total sales	$4,509	$4,278

- --------
(1) Gross hotel sales do not represent our reported revenues for 2000 and 1999, but are used to compute our reported rental income.

Rental income increased $95 million, or 7%, to approximately $1.4 billion for 2000, primarily driven by the growth in room revenues generated per available room or REVPAR for comparable properties, completion of the new Tampa Waterside Marriott in February 2000, and the opening of a 500-room expansion at the Orlando

World Center Marriott in June 2000, partially offset by the sale of five properties (1,577 rooms) in 1999. REVPAR increased 6.6% to $123.50 for 2000 for comparable properties, which consist of the 118 properties owned, directly or indirectly, by us for the same period of time in each period covered, excluding one property that sustained substantial fire damage during 2000, two properties where significant expansion at the hotels affected operations, and the Tampa Waterside Marriott, which opened in February 2000. On a comparable basis, average room rates increased approximately 6.3%, while average occupancy increased less than one percentage point for 2000.

Depreciation and Amortization. Depreciation and amortization increased $38 million or 13% during 2000, reflecting an increase in depreciable assets, which is primarily the result of capital projects placed in service in 2000, including the Tampa Waterside Marriott and expansion at the Orlando World Center Marriott, partially offset by net asset disposals of approximately $174 million in connection with the sale of five hotels during 1999.

Property-level Owner Expenses. Property-level owner expenses primarily consist of property taxes, insurance, and ground and equipment rent. These expenses increased $8 million, or 3%, to $272 million for 2000, primarily due to an increase in ground lease expense, which is commensurate with the increase in hotel sales, and an increase in equipment rent expense due to technology initiatives at the hotels during 2000.

Minority Interest. Minority interest expense increased $6 million to $27 million for 2000, primarily reflecting the improved property-level results, as previously discussed, to include those properties that are not wholly-owned by us.

Interest Expense. Interest expense decreased less than 1% to $466 million in 2000, primarily due to the $75 million reduction in the convertible debt obligation to Host REIT during the fourth quarter of 1999 and first quarter of 2000, and the decrease in the outstanding balance of the bank credit facility during 2000 compared to 1999, partially offset by the issuance of the Series F senior notes in October 2000.

Corporate Expenses. Corporate expenses increased $8 million to $42 million for 2000, resulting primarily from an increase in compensation expense related to employee stock plans.

Loss on Litigation Settlement. In connection with a proposed settlement for litigation related to seven limited service partnerships discussed above, we recorded a non-recurring charge of $40 million during the fourth quarter of 1999.

Lease Repurchase Expense. In connection with the execution of a definitive agreement with Crestline in November 2000 for the termination of the Crestline leases through the purchase and sale of the Crestline Lessee Entities by our TRS for $207 million in cash, we recorded a non-recurring loss provision of $207 million during the fourth quarter of 2000.

Income Tax Benefit. In connection with the lease repurchase expense recognized during the fourth quarter of 2000, we recognized an income tax benefit of $82 million, because for income tax purposes, the acquisition is recognized as an asset that will be amortized over the remaining term of the leases. In addition, during 2000 we favorably resolved certain tax contingencies and reversed $32 million of our net tax liabilities into income through the tax provision during the year ended December 31, 2000.

Extraordinary Gain (Loss). During 2000, we recorded an extraordinary loss of approximately $2 million representing the write off of deferred financing costs and certain fees paid to our lender in connection with the renegotiation of the bank credit facility

During the first quarter of 2000, we extinguished approximately $22 million of the convertible debt obligation to Host REIT through the purchase of 0.4 million shares of Host REIT's Convertible Preferred Securities on the open market. We recorded an extraordinary gain of $7 million on this transaction, based on the discount at which we purchased the Convertible Preferred Securities. We also recorded an extraordinary loss of $1 million representing the write-off of deferred financing costs in connection with the early extinguishment.

In connection with the refinancing of the mortgage and renegotiation of the management agreement on the New York Marriott Marquis hotel, we recognized an extraordinary gain of $14 million on the forgiveness of debt in the form of accrued incentive management fees during 1999.

An extraordinary loss of $3 million representing the write-off of deferred financing fees occurred in July 1999 when the mortgage debt for eight properties, including the New York Marriott Marquis hotel, was refinanced. In connection with this refinancing, the interest rate swap agreements associated with some of the original debt were terminated and an extraordinary gain of $8 million was recognized.

An extraordinary loss of $2 million representing the write-off of deferred financing fees occurred during the fourth quarter of 1999 when prepayments totaling $225 million were made to permanently reduce the outstanding balance of the term loan portion of the Bank Credit Facility to $125 million.

During the fourth quarter of 1999, we extinguished approximately $53 million of the convertible debt obligation to Host REIT through the purchase of 1.1 million shares of Host REIT's Convertible Preferred Securities on the open market. We recorded an extraordinary gain of $14 million on this transaction, based on the discount at which we purchased the Convertible Preferred Securities. We also recorded an extraordinary loss of $2 million representing the write-off of deferred financing fees in connection with the extinguishment.

Net Income. Our net income in 2000 was $207 million, compared to $285 million in 1999. Basic and diluted earnings per common unit was $.66 and $.65, respectively, for 2000, compared to $.96 and $.93, respectively, in 1999.

Net Income Available to Common Unitholders. Our net income available to common unitholders in 2000 was $187 million, compared to $279 million in 1999, reflecting distributions of $20 million in 2000 on the preferred limited partner units which were issued during the second half of 1999.

1999 Compared to 1998 (Historical)

Revenues. Revenues decreased $2.2 billion, or 61%, to $1.4 billion for 1999. As discussed above, our revenues and operating profit are not comparable to prior years, primarily due to the leasing of our hotels as a result of the REIT conversion. However, gross hotel sales, which is used in the determination of rental income for 1999, increased $836 million or 24% over 1998 amounts as is shown in the following table. Rental income for 1999 is computed based on gross hotel sales.

	Year Ended	
	December 31, 1999	December 31, 1998
	(in millions)	
Hotel Sales (1)		
Rooms	$2,725	$2,220
Food and beverage	1,258	984
Other	295	10,238
Total sales	$4,278	$3,442

- --------

(1) 1999 gross hotel sales do not represent our reported revenues for 1999. Rather, rental income, which is computed based on gross hotel sales, represents our reported revenues for 1999.

Lodging results for 1999 were primarily driven by the addition of 36 properties in 1998. The increase in hotel sales also reflects the growth in room revenues generated per available room or REVPAR. For comparable properties, REVPAR increased 4.1%, to $115.13 for 1999. On a comparable basis, average room rates increased approximately 3.8% for the year, while average occupancy increased less than one percentage point for the year.

Interest income decreased $12 million or 24% as a result of a lower level of cash and marketable securities held during 1999 compared to 1998.

The net gain on property transactions for 1999 primarily represents the $24 million recognized on the sale of five properties, including the sale of the Ritz-Carlton Boston and the El Paso Marriott during the fourth quarter of 1999.

Expenses. As discussed above, hotel revenues and hotel operating costs are not comparable with the prior year. The lessee pays specified direct property-level costs including management fees and we receive a rent payment, which is generally calculated as a percentage of revenue, subject to a minimum level, net of certain property-level owner costs. All of these costs were our expenses in 1998. Property-level owner costs which are comparable, including depreciation, property taxes, property insurance, ground and equipment rent, increased 8% to $557 million for 1999 versus 1998, primarily reflecting the depreciation from 36 properties acquired during 1998.

Minority Interest. Minority interest expense decreased $31 million to $21 million in 1999, primarily reflecting the impact of the consolidation of partnerships which occurred as part of the REIT conversion.

Interest Expense. Interest expense increased 40% to $469 million in 1999, primarily due to the issuance of senior notes, establishment of a new credit facility and additional mortgage debt on properties acquired in 1998. In addition, in 1999, we recognized $38 million in interest expense related to the convertible debt obligation to Host Marriott Corporation, which supports the dividends paid by Host REIT to holders of the Convertible Preferred Securities. In 1998, these dividends, totaling $37 million, were a separate component of expense.

Corporate Expenses. Corporate expenses decreased $14 million to $34 million in 1999, resulting primarily from lower staffing levels after the Crestline spin-off, lower costs associated with reduced acquisition activity and lower costs related to various stock compensation plans.

Loss on Litigation. In connection with a proposed settlement for litigation related to six limited service partnerships we have recorded a one-time, non-recurring charge of $40 million.

Income from Discontinued Operations. Income from discontinued operations represents the senior living communities business' results of operations for 1998.

Extraordinary Gain (Loss). In connection with the refinancing of the mortgage and renegotiation of the management agreement on the New York Marriott Marquis Hotel, we recognized and extraordinary gain of $14 million on the forgiveness of debt in the form of accrued incentive management fees.

An extraordinary loss of $3 million representing the write-off of deferred financing fees occurred in July 1999 when the mortgage debt for eight properties was refinanced, including the New York Marriott Marquis Hotel. In connection with this refinancing, the interest rate swap agreements associated with some of the original debt were terminated and an extraordinary gain of $8 million was recognized.

An extraordinary loss of $2 million representing the write-off of deferred financing fees occurred during the fourth quarter of 1999 when prepayments totaling $225 million were made to permanently reduce the outstanding balance of the term loan portion of the Bank Credit Facility to $125 million.

During the fourth quarter of 1999, we extinguished approximately $53 million of the convertible debt obligation to Host Marriott through the purchase of 1.1 million shares of Host REIT's Convertible Preferred Securities on the open market. We recorded an extraordinary gain of $14 million on this transaction, based on the discount at which we purchased the Convertible Preferred Securities. We also recorded an extraordinary loss of $2 million representing the write-off of deferred financing fees in connection with the early extinguishment.

In connection with the purchase of the old senior notes, we recognized an extraordinary loss of $148 million in the third quarter of 1998, which represents the bond premium and consent payments totaling approximately $175 million and the write-off of deferred financing fees of approximately $52 million related to the old senior notes, net of taxes.

Net Income (Loss). Our net income in 1999 was $285 million, compared to $47 million in 1998. Basic and diluted earnings per common unit was $.96 and $.93 for 1999, compared to $.22 and $.27 in 1998.

Net Income (Loss) Available to Common Unitholders. Our net income available to common unitholders in 1999 was $279 million, compared to $47 million in 1998, reflecting dividends of $6 million in 1999 on the Class A and Class B Preferred Units which were issued during 1999.

2000 Compared to 1999 (Pro Forma)

Because of the significant changes to our corporate structure as a result of our acquisition of the Crestline Lessee Entities during January 2001, management believes that a discussion of our pro forma results of operations is meaningful and relevant to an investor's understanding of our present and future operations. The pro forma results of operations set forth below are based on the audited consolidated statements of operations for the years ended December 31, 2000 and 1999, and are only adjusted to reflect the January 2001 acquisition of the Crestline Lessee Entities for $207 million in cash as if the transaction occurred at the beginning of 1999. The following pro forma results do not include adjustments for any transactions other than the Crestline lease repurchase and are not presented in accordance with Article 11 of SEC Regulation S-X.

As a result of the Crestline acquisition, effective January 1, 2001, we lease 116 of our full-service hotels to our TRS, and therefore, our consolidated operations with respect to those hotels will represent property-level revenues and expenses rather than rental income from third-party lessees. In addition, the net income applicable to the TRS will be subject to federal and state income taxes. A non-recurring pre-tax loss of $207 million net of a tax benefit of $82 million that was recorded in our historical results of operations for the fourth quarter of 2000 is excluded from the pro forma results of operations for 2000.

The pro forma adjustments to reflect the acquisition of the Crestline Lessee Entities are as follows:

- record hotel-level revenues and expenses and reduce historical rental income with respect to the 116 properties;
- reduce historical interest income for amounts related to the working capital note with Crestline;
- reduce historical equity in earnings of affiliates for interest earned at our non-controlled subsidiary on the related FF&E loans with Crestline;
- record interest expense related to the additional borrowings from the 9 1/4% Series F senior notes to fund the $207 million cash payment;
- record the minority interest effect related to the outside ownership in the operating partnership; and
- record the tax provision attributable to the income of the TRS at an effective rate of 39.5%.

The unaudited pro forma financial information does not purport to represent what our results of operations or financial condition would actually have been if the transaction had in fact occurred at the beginning of 1999, or to project our results of operations or financial condition for any future period. The unaudited pro forma financial information is based upon available information and upon assumptions and estimates that we believe are reasonable under the circumstances. The following unaudited pro forma financial information should be read in conjunction with our audited financial statements contained in this annual report.

UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS

For the Fiscal Years Ended December 31, 2000 and 1999
(in millions, except per unit amounts)

	Pro Forma	
	2000	1999
	(unaudited)	
REVENUE		
Hotel property-level revenues		
Rooms	$2,441	$2,267
Food and beverage	1,217	1,129
Other	288	263
Total hotel property-level revenues	3,946	3,659
Rental income	178	188
Net gains on property transactions	6	28
Equity in earnings of affiliates and other	10	(9)
Total revenues	4,140	3,866
OPERATING COSTS AND EXPENSES		
Depreciation and amortization	331	293
Hotel property-level costs and expenses		
Rooms	578	542
Food and beverage	894	832
Other	140	129
Management fees	236	209
Other property-level costs and expenses	1,085	1,030
Total operating costs and expenses	3,264	3,035
OPERATING PROFIT BEFORE MINORITY INTEREST, CORPORATE EXPENSES, INTEREST, AND OTHER	876	831
Minority interest	(27)	(21)
Corporate expenses	(42)	(34)
Loss on litigation settlement	--	(40)
Interest expense	(482)	(489)
Interest income	36	35
Other	(23)	(15)
INCOME BEFORE INCOME TAXES	338	267
Provision for income taxes	(1)	(3)
INCOME BEFORE EXTRAORDINARY ITEMS	337	264
Less:		
Dividends on preferred stock	(20)	(6)
INCOME BEFORE EXTRAORDINARY ITEMS AVAILABLE TO COMMON UNITHOLDERS	$ 317	$ 258
Basic earnings per unit before extraordinary items available to common unitholders	$ 1.12	$ .88
Diluted earnings per unit before extraordinary items available to common unitholders	$ 1.10	$ .86

Revenues. Revenues increased $274 million, or 7%, to $4.1 billion for 2000 from $3.9 billion for 1999. Our revenue and operating profit were impacted by improved results for comparable full-service hotel properties, and the addition of a full-service hotel property, the Tampa Waterside Marriott, and a significant expansion (500 rooms) at the Orlando World Center Marriott during 2000.

Hotel sales, which include room sales, food and beverage sales, and other ancillary sales such as telephone sales, increased $287 million, or 8%, to over $3.9 billion in 2000. The strong hotel results reflect the 6.6% REVPAR increase for our comparable properties and the aforementioned developments during 2000. Rental income, which primarily represents income on third party leases with respect to five of our full-service hotels, decreased $10 million or 5% to $178 million.

Operating Costs and Expenses. Operating costs and expenses principally consist of property-level operating costs, depreciation, management fees, real and personal property taxes, ground building and equipment rent, insurance and certain other costs. Operating costs and expenses increased $229 million to $3.3 billion for 2000, primarily representing increased hotel operating costs. Hotel operating costs increased $136 million, or 8% to $1.8 billion for 2000, which is commensurate with the increase in hotel sales. As a percentage of hotel revenues, hotel operating costs and expenses were 47% for 2000 and 1999. The significant increases in REVPAR were offset by increases in management fees and property-level operating costs, including higher labor costs in certain markets.

Operating Profit. As a result of the changes in revenues and operating costs and expenses discussed above, our operating profit increased $45 million, or 5%, to $876 million for 2000. Operating profit was approximately 21% of total revenues for both 2000 and 1999.

Minority Interest. Minority interest expense increased $6 million to $27 million for 2000, primarily reflecting the improved property-level results, as previously discussed, to include those properties that are not wholly-owned by us.

Loss on Litigation. In connection with a proposed settlement for litigation related to seven limited service partnerships discussed above, we recorded a non-recurring charge of $40 million during the fourth quarter of 1999.

Income Tax Provision. Income of the TRS will be subject to federal and state income taxes.

Income Before Extraordinary Items. Income Before Extraordinary Items for 2000 was $337 million compared to $264 million for 1999. Basic earnings before extraordinary items per common share was $1.12 and $.88 for 2000 and 1999, respectively. Diluted earning before extraordinary items per common share was $1.10 and $.86 for 2000 and 1999, respectively.

Liquidity and Capital Resources

Cash and cash equivalents were $313 million and $277 million at December 31, 2000 and December 31, 1999, respectively. Cash from operations increased $174 million to $534 million in 2000, primarily reflecting improved results of operations as previously discussed, and changes in other liabilities, which were a source of cash of $67 million in 2000, primarily due to the $125 million accrual, net of taxes, for the Crestline lease repurchase expense which was not paid until January 2001, and a use of cash of $60 million in 1999 primarily reflecting cash payments for REIT Conversion expenses which were accrued in 1998.

Cash used in investing activities was $448 million and $176 million in 2000 and 1999, respectively. Cash used in investing activities includes capital expenditures of $379 million and $361 million and acquisitions for $40 million and $29 million in 2000 and 1999, respectively. Significant investing activities during 2000 and 1999 include:

- In December 2000, a joint venture formed by us (through non-controlled subsidiaries) and Marriott International acquired the partnership interests in Courtyard by Marriott Limited Partnership and Courtyard by Marriott II Limited Partnership for an aggregate payment of approximately $372 million plus interest and legal fees, of which we paid approximately $79 million. The joint venture acquired the partnerships by acquiring partnership units pursuant to a tender offer for such units followed by a merger

of each of CBM I and CBM II with and into subsidiaries of the joint venture. The joint venture financed the acquisition with mezzanine indebtedness borrowed from Marriott International, cash and other assets contributed by us (through our non-controlled subsidiaries) including Rockledge's existing general partner and limited partner interests in the partnerships, and cash and other sets contributed by Marriott International. We own a 50% interest in the joint venture.

- In late June 2000, an expansion that included the additions of a 500-room tower and 15,000 square feet of meeting space at the Orlando World Center Marriott was placed in service at an approximate development cost of $88 million, of which $39 million was expended during 2000.

- In May 2000, we acquired a non-controlling partnership interest in the JWDC Limited Partnership, which owns the JW Marriott Hotel, a 772-room hotel located on Pennsylvania Avenue in Washington, DC. We previously held a small interest in the venture, and invested an additional $40 million in the form of a co-general partner and limited partner interest.

- In October 1999, the Company was paid $65 million in satisfaction of the mortgage note secured by an additional hotel that was acquired in connection with the Blackstone Acquisition.

- Property and equipment balances include $135 million and $243 million for construction in progress as of December 31, 2000 and December 31, 1999, respectively. The reduction in construction in progress is due to the completion of the Tampa Waterside Marriott, which was placed in service in February 2000 and the expansion at the Orlando World Center Marriott, which was placed in service in late June 2000. The balance as of December 31, 2000, primarily relates to properties in Naples, Orlando, San Diego, and various other expansion and development projects.

Cash used in financing activities was $50 million and $343 million in 2000 and 1999, respectively.

We believe cash payments will be required for the recognition of certain deferred tax items and the settlement of certain audits of prior years' tax returns with the Internal Revenue Service and state tax authorities. We made net payments to certain states and the IRS of approximately $14 million and $27 million in 1999 and 1998, respectively, and made additional payments of $24 million in the first quarter of 2001. We also believe cash payments will be needed to fund specific development projects, all of which are discussed in this annual report. The sources of future cash outflows are dependent on cash from operations and the amount of additional debt, if any, necessary for payment upon the final resolution of these matters.

As of December 31, 2000, our total consolidated debt was approximately $5.8 billion. Our debt is comprised of $2.8 billion in unsecured senior notes, $2.3 billion in non-recourse mortgage debt, $150 million outstanding under the term loan portion of the $775 million bank credit facility, and the $492 million convertible debt obligation to Host REIT.

Since August 1998, we have issued or refinanced more than $3.9 billion of debt, as is described below, in order to reduce the risk and volatility in our capital structure. The net effect of these transactions has been to virtually eliminate all of our near term maturities, with only $8 million maturing through 2001, reduce our weighted average interest rate by approximately 70 basis points, and extend our average maturity by over one year. As a result, our weighted average rate is now approximately 8.2%, and our average maturity is approximately seven years, with 95% of our debt having fixed interest rates. Significant debt transactions include:

- As of December 31, 2000, $150 million was outstanding under the term loan portion of the bank credit facility, while the available capacity under the revolving credit portion of the bank credit facility was $625 million. The bank credit facility was renegotiated in June 2000 for $775 million. The credit facility's term was extended for two additional years, through August 2003. Borrowings under the credit facility generally bear interest at the Eurodollar rate plus 2.25% (9.04% at December 31, 2000), and the interest rate and a commitment fee on the unused portion of the facility fluctuate based on specified financial ratios. We funded a portion of the $207 million cash payment to acquire the Crestline Lessee Entities through increased borrowings under the revolver portion of the bank credit facility of $40 million during

January 2001, and we borrowed an additional $50 million and $25 million in February 2001 and March 2001, respectively, for general corporate purposes.

- In October 2000, we issued $250 million of 9 1/4% Series F senior notes due in 2007, under the same indenture and with the same covenants as the Series A, Series B, Series C, and Series E senior notes. The net proceeds to the Company were approximately $245 million, after commissions and expenses of approximately $5 million. In March 2001, the Series F Senior notes were exchanged on a one-for-one basis for Series G Senior notes, which are freely transferable by the holders.

- In February 2000, we refinanced the $80 million mortgage on Marriott's Harbor Beach Resort property in Fort Lauderdale, Florida. The new mortgage is for $84 million, at a rate of 8.58%, and matures in March 2007.

- In February 1999, we issued $300 million of 8 3/8% Series D senior notes due 2006 and used the proceeds to refinance, or purchase, debt which had been assumed through the merger of some partnerships or the purchase of hotel properties in connection with the REIT conversion in December 1998. We repaid a $40 million variable rate mortgage with a portion of the proceeds, and terminated the associated swap agreement, incurring a termination fee of approximately $1 million. In August 1999, the Series D Senior notes were exchanged on a one-for-one basis for Series E Senior notes, which are freely transferable by the holders.

- In April 1999, a subsidiary of ours completed the refinancing of the $245 million mortgage on the New York Marriott Marquis Hotel, maturing in June 2000. In connection with the refinancing, we renegotiated the hotel's management agreement and recognized an extraordinary gain of $14 million on the forgiveness of accrued incentive management fees by the manager. This mortgage was subsequently refinanced as part of the $665 million financing agreement discussed below.

- In June 1999, we refinanced the debt on the San Diego Marriott Hotel and Marina. The mortgage is for $195 million and a term of 10 years at a rate of 8.45%. In addition, we entered into a mortgage for the Philadelphia Marriott expansion in July 1999 for $23 million at an interest rate of approximately 8.6%, maturing in 2009.

- In July 1999, we entered into a financing agreement pursuant to which we borrowed $665 million due 2009 at a fixed rate of 7.47 percent. Eight of our hotels serve as collateral for the agreement. In connection with this refinancing, an extraordinary loss of $3 million was recognized, representing the write-off of deferred financing fees. The proceeds from this financing were used to refinance existing mortgage indebtedness maturing at various times through 2000, including approximately $590 million of outstanding variable rate mortgage debt, and to terminate the related interest rate swap agreements, recognizing an extraordinary gain of approximately $8 million. As a result of the refinancing we no longer have any interest rate swap agreements outstanding.

- In August 1999, we made a prepayment of $19 million to pay down in full the mezzanine mortgage on the Marriott Desert Springs Resort and Spa. In September 1999, we made a prepayment of $45 million to pay down in full the mortgage note on the Philadelphia Four Seasons Hotel.

- In addition to the capital resources provided by our debt financings, in December 1996, one of our wholly-owned subsidiary trusts, issued 11 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 $550 million. Proceeds from the issuance were invested in 6 3/4% Convertible Subordinated Debentures due December 2, 2026 issued by us, which are the trust's sole assets. During 2000, we repurchased .4 million shares of the Convertible Preferred Securities as part of the stock repurchase plan discussed below. Since the inception of the repurchase program in September 1999, 1.5 million shares of the Convertible Preferred Securities have been repurchased.

Significant equity financings include:

- Distributions in 2000 reflect the $0.86 cash distribution per OP Unit paid during the year. In addition, on December 18, 2000, the Board of Directors declared a regular cash distribution of $0.26 per OP Unit

which was paid on January 12, 2001. 1999 distributions reflect the $73 million special dividend declared in December 1998 in connection with the REIT Conversion, as well as the $0.63 distribution per OP Unit paid as of December 31, 1999.

- In September 1999, the Board of Directors of Host REIT announced our intention to repurchase, from time to time, up to 22 million shares of Host REIT common stock, OP Units, or an amount of Host REIT's Convertible Preferred Securities which are convertible into a like number of shares of Host REIT's common stock based upon the specified conversion ratio. For the year ended December 31, 2000, we purchased approximately 4.9 million shares of common stock, .4 million shares of the Convertible Preferred Securities, and .3 million OP Units for approximately $62 million. Since the inception of the repurchase program, we spent, in the aggregate, approximately $150 million to repurchase 16.2 million equivalent units.

- In August 1999, Host REIT sold 4.16 million shares of 10% Class A preferred stock and we issued an equivalent security. Holders of the stock are entitled to receive cumulative cash dividends at a rate of 10% per year of the $25.00 per share liquidation preference. Dividends are payable quarterly in arrears beginning October 15, 1999. Dividends in 2000 reflect quarterly cash dividends of $0.625 per share paid on January 17, April 14, July 14 and October 16. In addition, on December 18, 2000, the Board of Directors declared a cash dividend of $0.625 per share to be paid on January 12, 2001.

- In November 1999, Host REIT sold 4.0 million shares of 10% Class B preferred stock and we issued an equivalent security. Holders of the stock are entitled to receive cumulative cash dividends at a rate of 10% per year of the $25.00 per share liquidation preference. Dividends are payable quarterly in arrears beginning January 15, 2000. Dividends in 2000 reflect quarterly cash dividends of $0.625 per share paid on January 17, April 14, July 14 and October 16. In addition, on December 18, 2000, the Board of Directors declared a cash dividend of $0.625 per share to be paid on January 12, 2001.

FFO and EBITDA

We consider Comparative Funds from Operations (Comparative FFO), which represents FFO as defined by the National Association of Real Estate Investment Trusts adjusted for significant non-recurring items detailed in the chart below, and our EBITDA to be indicative measures of our operating performance due to the significance of our long-lived assets. Comparative FFO and EBITDA are also useful in measuring our ability to service debt, fund capital expenditures and expand our business. Furthermore, management believes that Comparative FFO and EBITDA are meaningful disclosures that will help unitholders and the investment community to better understand our financial performance, including comparing our performance to other REITs. However, Comparative FFO and EBITDA as presented may not be comparable to amounts calculated by other companies. This information should not be considered as an alternative to net income, operating profit, cash from operations, or any other operating or liquidity performance measure prescribed by accounting principles generally accepted in the United States. Cash expenditures for various long-term assets, interest expense (for EBITDA purposes only) and income taxes have been, and will be incurred which are not reflected in the EBITDA and Comparative FFO presentation.

Comparative FFO available to common unitholders increased $62 million, or 11%, to $614 million in 2000 over 1999. The following is a reconciliation of income before extraordinary items to Comparative FFO (in millions):

	Year Ended	
	December 31, 2000	December 31, 1999
Funds from Operations		
Income before extraordinary items	$203	$256
Depreciation and amortization	322	291
Other real estate activities	(3)	(28)
Partnership adjustments	17	20
Funds from operations of Host LP	539	539
Loss on Crestline lease repurchase	207	--
Loss on litigation settlement	--	40
Taxes on Crestline lease repurchase	(82)	--
Taxes unrelated to continuing operations	(30)	(21)
Comparative funds from operations of Host LP	634	558
Dividends on preferred stock	(20)	(6)
Comparative funds from operations of Host LP available to common unitholders	$614	$552

EBITDA increased $91 million, or 9%, to $1,098 million in 2000 from $1,007 million in 1999. Hotel EBITDA increased $90 million, or 9%, to $1,119 million in 2000 from $1,029 million in 1999, reflecting comparable hotel EBITDA growth.

The following schedule presents our EBITDA as well as a reconciliation of EBITDA to income before extraordinary items (in millions):

	Year Ended	
	December 31, 2000	December 31, 1999
EBITDA		
Hotels	$1,119	$1,029
Office buildings and other investments	7	4
Interest income	40	39
Corporate and other expenses	(68)	(65)
EBITDA of Host LP	$1,098	$1,007

	Year Ended	
	December 31, 2000	December 31, 1999
EBITDA of Host LP	$1,098	$1,007
Interest expense	(466)	(469)
Income taxes	98	16
Depreciation and amortization	(331)	(293)
Minority interest expense	(27)	(21)
Loss on litigation settlement	--	(40)
Lease repurchase expense	(207)	--
Other non-cash changes, net	38	56
Income before extraordinary items	$ 203	$ 256

Our interest coverage, defined as EBITDA divided by cash interest expense, was 2.4 times, 2.2 times, and 2.7 times for 2000, 1999, and 1998, respectively. The ratio of earnings to fixed charges was 1.2 to 1.0, 1.5 to 1.0, and 1.5 to 1.0 in 2000, 1999, and 1998, respectively.

Leases. In addition to our full-service hotels, we also lease some property and equipment under noncancelable operating leases, including the long-term ground leases for some of our hotels, generally with multiple renewal options. The leases related to the 53 Courtyard properties and 18 Residence Inn properties sold during 1995 and 1996, are nonrecourse to us and contain provisions for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. We remain contingently liable on some leases related to divested non-lodging properties. Such contingent liabilities aggregated $68 million at December 31, 2000. However, management considers the likelihood of any substantial funding related to these divested properties' leases to be remote.

Inflation. Our hotel lodging properties have been impacted by inflation through its effect on increasing costs and on the managers' ability to increase room rates. Unlike other real estate, hotels have the ability to change room rates on a daily basis, so the impact of higher inflation often can be passed on to customers.

Approximately 95% of our debt bears interest at fixed rates. This debt structure largely mitigates the impact of changes in the rate of inflation on future interest costs. We have some financial instruments that are sensitive to changes in interest rates. The interest recognized on the debt obligations is based on various LIBOR terms, which ranged from 6.6% to 6.8% and 5.6% to 5.9% at December 31, 2000 and December 31, 1999, respectively.

In July 1999, we completed the refinancing of approximately $588 million of outstanding variable rate mortgage debt and terminated the related interest rate swap agreements. In June 1999, we completed the refinancing of approximately $196 million of outstanding variable rate mortgage debt. As a result of the refinancing we no longer have any interest rate swap agreements outstanding. Our remaining variable debt consists of the credit facility and the mortgage debt on the Ritz-Carlton Amelia Island property which totaled $354 million at March 16, 2001.

New Accounting Standards. As discussed in note 1 to the consolidated financial statements, in December 1999, we changed our method of accounting for contingent rental revenues to conform to the Commission's Staff Accounting Bulletin (SAB) No. 101. As a result, contingent rental revenue was deferred on the balance sheet until certain revenue thresholds are realized. We adopted SAB No. 101 with retroactive effect beginning January 1, 1999 to conform to the new presentation. SAB No. 101 had no impact on full-year 2000 and 1999 revenues, net income, or earnings per share because all rental revenues considered contingent under SAB No. 101 were earned as of December 31, 2000 and 1999. The change in accounting principle has no effect on years prior to 1999 because percentage rent relates to rental income on our leases, which began in 1999.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including specified derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. We determined that there will be no impact from the implementation of SFAS No. 133.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The table below provides information as of December 31, 2000 about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	Expected Maturity Date					
	2000	2001	2002	2003	Total	Fair Value
	($in millions)					
Liabilities						
Long-term--variable rate debt:						
The Ritz-Carlton, Amelia Island	--	--	--	89	89	87
Credit Facility(1)	--	--	--	150	150	150
Average Interest Rate(2)	8.9%	8.9%	8.9%	--	--	--

- ---

(1) The Company borrowed an additional $115 million under the revolver portion of the bank credit facility during the first quarter of 2001 to partially fund the acquisition of the Crestline Lessee Entities and for general corporate purposes.

(2) Interest rates are based on various LIBOR terms plus certain basis points which range from 200 to 225 basis points. The one-month LIBOR rate at December 31, 2000 was 6.6%. We have assumed for purposes of this presentation that the LIBOR rate remains unchanged. A 100 basis point increase in LIBOR would increase our interest rate expense by approximately $2 million per year.

Item 8. Financial Statements and Supplementary Data

The following financial information is included on the pages indicated:

Host Marriott, L.P.

Lease Pool Financial Statements

Pool A:

Pool B:

Pool C:

Pool D:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Host Marriott Corporation as general partner to Host Marriott, L.P.:

We have audited the accompanying consolidated balance sheets of Host Marriott, L.P. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations and comprehensive income, partners' capital and cash flows of Host Marriott, L.P. for each of the three fiscal years in the period ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, L.P. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index at Item 14(a)(2) is presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Vienna, Virginia
March 1, 2001

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 1999

	2000	1999
	(in millions)	
ASSETS		
Property and equipment, net	$7,110	$7,108
Notes and other receivables, net (including amounts due from affiliates of $164 million and $127 million, respectively)	211	175
Rent receivable	65	72
Investments in affiliates	128	49
Other assets	439	345
Restricted cash	125	170
Cash and cash equivalents	313	277
	$8,391	$8,196
LIABILITIES AND PARTNERS' CAPITAL		
Debt		
Senior notes	$2,790	$2,539
Mortgage debt	2,275	2,309
Convertible debt obligation to Host Marriott Corporation	492	514
Other	257	221
	5,814	5,583
Accounts payable and accrued expenses	381	148
Other liabilities	312	475
Total liabilities	6,507	6,206
Minority interest	139	136
Cumulative redeemable preferred limited partnership interests of third parties at redemption value ("Preferred OP Units") (representing 0.6 million units at December 31, 1999)	--	5
Limited partnership interests of third parties at redemption value (representing 63.6 million units and 64.0 million units at December 31, 2000 and 1999, respectively)	823	528
Partners' capital		
General partner	1	1
Cumulative redeemable preferred limited partner	196	196
Limited partner	724	1,120
Accumulated other comprehensive income (loss)	1	4
Total partners' capital	922	1,321
	$8,391	$8,196

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal years ended December 31, 2000, 1999, and 1998
(in millions, except per unit amounts)

	2000	1999	1998
REVENUES			
Rental income	$1,390	$1,295	$ --
Hotel sales			
Rooms	--	--	2,220
Food and beverage	--	--	984
Other	--	--	238
Total hotel sales	--	--	3,442
Interest income	40	39	51
Net gains on property transactions	6	28	57
Equity in earnings of affiliates and other	37	14	14
Total revenues	1,473	1,376	3,564
EXPENSES			
Depreciation and amortization	331	293	246
Property-level expenses	272	264	271
Hotel operating expenses			
Rooms	--	--	524
Food and beverage	--	--	731
Other department costs and deductions	--	--	843
Management fees and other (including Marriott International management fees of $196 million in 1998)	--	--	213
Minority interest	27	21	52
Corporate expenses	42	34	48
REIT conversion expenses	--	--	64
Loss on litigation settlement	--	40	--
Lease repurchase expense	207	--	--
Interest expense	466	469	335
Dividends on Host Marriott-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust whose sole assets are the convertible subordinated debentures due 2026 ("Convertible Preferred Securities")	--	--	37
Other	23	15	26
Total expenses	1,368	1,136	3,390
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	105	240	174
Benefit (provision) for income taxes	98	(10)	(86)
Benefit from change in tax status	--	26	106
INCOME FROM CONTINUING OPERATIONS	203	256	194
DISCONTINUED OPERATIONS			
Income from discontinued operations (net of income tax expense of $4 million in 1998)	--	--	6
Provision for loss on disposal (net of income tax benefit of $3 million in 1998)	--	--	(5)
INCOME BEFORE EXTRAORDINARY ITEMS	203	256	195
Extraordinary gain (loss), net of income tax expense (benefit) of $3 million, $4 million and $(80) million in 2000, 1999, and 1998, respectively	4	29	(148)
NET INCOME	$ 207	$ 285	$ 47
Less: Distributions on preferred limited partner units to Host Marriott	(20)	(6)	--
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	$ 187	$ 279	$ 47
BASIC EARNINGS (LOSS) PER COMMON UNIT:			
Continuing operations	$ .64	$ .86	$ .90
Discontinued operations (net of income taxes)	--	--	.01
Extraordinary gain (loss)	.02	.10	(.69)
BASIC EARNINGS PER COMMON UNIT	$ .66	$ .96	$ .22
DILUTED EARNINGS (LOSS) PER COMMON UNIT:			
Continuing operations	$ .63	$ .83	$ .84
Discontinued operations (net of income taxes)	--	--	.01
Extraordinary gain (loss)	.02	.10	(.58)
DILUTED EARNINGS PER COMMON UNIT	$ .65	$ .93	$ .27

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME OF HOST MARRIOTT CORPORATION

Fiscal year ended December 31, 1998
(in millions)

Shares Outstanding			Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Preferred	Common							
--	203.8	Balance, January 2, 1998.....	--	204	935	49	12	--
--	--	Net income available to common shareholders.....	--	--	--	47	--	47
--	--	Other comprehensive income (loss):						
--		Unrealized loss on HM Services common stock.....	--	--	--	--	(5)	(5)
--		Foreign currency translation adjustment.....	--	--	--	--	(9)	(9)
--		Reclassification of gain realized on HM Services common stock--net income.....	--	--	--	--	(2)	(2)

--	--	Comprehensive income available to common shareholders.....						$ 31
								====
--	1.4	Common stock issued for the comprehensive stock and employee stock purchase plans.....	--	--	8	--	--	
--	--	Adjustment of stock par value from $1 to $.01 per share.....	--	(202)	202	--	--	
--	11.9	Common stock issued for Special Dividend.....	--	--	143	(143)	--	
--	--	Distribution of stock of Crestline Capital Corporation.....	--	--	--	(438)	--	
--	--	Cash portion of Special Dividend....	--	--	--	(69)	--	
--	217.1	Balance, Before contribution to Host Marriott, L.P.	$--	$ 2	$1,288	$(554)	$ (4)	
		Net assets retained by Host Marriott.....			(23)			

		Balance contributed to Host Marriott, L.P. ..			$ 709			
					======			

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
AND COMPREHENSIVE INCOME OF HOST MARRIOTT L.P.

Fiscal years ended December 31, 2000, 1999 and 1998
(in millions)

Class A and B Preferred Units Outstanding	Common OP Units Outstanding		Preferred Limited Partner	General Partner	Limited Partner	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
--	217.1	Contribution by Host Marriott	$--	$ 1	$ 712	$ (4)	$--
--	8.5	Issuance of OP Units to Host Marriott in connection with the Partnership Mergers	--	--	113	--	
--	--	Adjustments to limited partner interests in the Operating Partnership	--	--	(58)	--	
--	225.6	Balance, December 31, 1998	--	1	767	(4)	--
--	--	Net income	--	--	285	--	285
--	--	Other comprehensive income (loss):					
		Unrealized loss on HM Services common stock	--	--	--	5	5
		Foreign currency translation adjustment	--	--	--	4	4
		Reclassification of gain realized on HM Services common stock--net income	--	--	--	(1)	(1)

--	--	Comprehensive income					$293
							====
--	3.6	Units issued to Host Marriott for the comprehensive stock and employee stock purchase plans	--	--	8	--	
--	0.5	Redemptions of limited partnership interests of third parties	--	--	(3)	--	
--	--	Distributions on OP Units	--	--	(245)	--	
--	--	Distributions on Preferred Limited Partner Units	--	--	(6)	--	
--	(0.4)	Adjustment to special dividend	--	--	(4)	--	
--	(5.8)	Repurchases of OP Units	--	--	(50)	--	
--	--	Market adjustment to record Preferred OP Units and OP Units of third parties at redemption value	--	--	368	--	
8.2	--	Issuance of Preferred OP Units	196	--	--	--	
8.2	223.5	Balance, December 31, 1999	$196	$ 1	$1,120	$ 4	
--	--	Net income	--	--	207	--	207
--	--	Other comprehensive income (loss):					
		Foreign currency translation adjustment	--	--	--	(2)	(2)
		Reclassification of gain realized on HM Services common stock--net income	--	--	--	(1)	(1)

--	--	Comprehensive income					$204
							====
--	2.0	Units issued to Host Marriott for the comprehensive stock and employee stock purchase plans	--	--	15	--	
--	0.7	Redemptions of limited partnership interests of third parties	--	--	(3)	--	
--	--	Distributions on OP Units	--	--	(259)	--	
--	--	Distributions on Preferred Limited					

		Partner Units.....	--	--	(21)	--
--	(4.9)	Repurchases of OP Units.....	--	--	(44)	--
--	--	Market adjustment to record Preferred OP Units and OP Units of third parties at redemption value.....	--	--	(291)	--
8.2	221.3	Balance, December 31, 2000.....	$196	$ 1	$ 724	$ 1

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 31, 2000, 1999 and 1998

	2000	1999	1998
	(in millions)		
OPERATING ACTIVITIES			
Income from continuing operations	$ 203	$ 256	$ 194
Adjustments to reconcile to cash from operations:			
Depreciation and amortization	331	293	246
Income taxes	(47)	(66)	(103)
Amortization of deferred income	(4)	(4)	(4)
Net (gains) losses on property transactions	(2)	(24)	(50)
Equity in earnings of affiliates	(25)	(6)	(1)
Other	14	10	39
Changes in operating accounts:			
Other assets	(3)	(55)	(59)
Other liabilities	67	(44)	50
Cash from continuing operations	534	360	312
Cash from discontinued operations	--	--	29
Cash from operations	534	360	341
INVESTING ACTIVITIES			
Proceeds from sales of assets	--	195	227
Acquisitions	(40)	(29)	(988)
Capital expenditures:			
Capital expenditures for renewals and replacements	(230)	(197)	(165)
New investment capital expenditures	(108)	(150)	(87)
Other Investments	(41)	(14)	--
Purchases of short-term marketable securities	--	--	(134)
Sales of short-term marketable securities	--	--	488
Notes receivable collections (advances), net	6	19	4
Affiliate notes receivable issuances and collections, net	(39)	--	(13)
Other	4	--	13
Cash used in investing activities from continuing operations	(448)	(176)	(655)
Cash used in investing activities from discontinued operations	--	--	(50)
Cash used in investing activities	(448)	(176)	(705)
FINANCING ACTIVITIES			
Issuances of debt, net	540	1,345	2,496
Debt prepayments	(278)	(1,397)	(1,898)
Cash contributed to Crestline at inception	--	--	(52)
Cash contributed to Non-Controlled Subsidiary	--	--	(30)
Cost of extinguishment of debt	--	(2)	(175)
Scheduled principal repayments	(39)	(34)	(51)
Issuances of OP Units	4	5	1
Issuances of preferred limited partner units	--	196	--
Distributions on common OP Units	(241)	(258)	--
Distributions on preferred limited partner units	(19)	(2)	--
Redemption or repurchase of OP Units for cash	(47)	(54)	--
Repurchases of Convertible Preferred Securities	(15)	(36)	--
Other	45	(106)	(26)
Cash from (used in) financing activities from continuing operations	(50)	(343)	265
Cash from financing activities from discontinued operations	--	--	24
Cash from (used in) financing activities	(50)	(343)	289
DECREASE IN CASH AND CASH EQUIVALENTS	36	(159)	(75)
CASH AND CASH EQUIVALENTS, beginning of year	277	436	511
CASH AND CASH EQUIVALENTS, end of year	$ 313	$ 277	$ 436

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Fiscal years ended December 31, 2000, 1999 and 1998

Supplemental schedule of noncash investing and financing activities:

In 1999, approximately 612,000 cumulative redeemable preferred limited partnership units valued at $7.6 million were issued in connection with the acquisition of minority interests in two hotels.

The Company assumed mortgage debt of $1,215 million in 1998 for the acquisition of, or purchase of controlling interest in, certain hotel properties and senior living communities.

In 1998, the Company distributed $438 million of net assets in connection with the discontinued operations and contributed $12 million of net assets to the Non-Controlled Subsidiaries in connection with the REIT Conversion.

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Description of Business

Host Marriott L.P. ("Host LP" or the "Operating Partnership"), a Delaware limited partnership, operating through an umbrella partnership structure with Host Marriott Corporation ("Host REIT") as the sole general partner, is primarily the owner of hotel properties. Host REIT operates as a self-managed and self-administered real estate investment trust ("REIT") with its operations conducted solely through the Operating Partnership and its subsidiaries. Due to certain tax laws restricting REITs from deriving revenues directly from the operations of hotels, effective January 1, 1999, Host LP leased substantially all of the hotels to subsidiaries of Crestline Capital Corporation ("Crestline") and certain other lessees as further discussed at Note 10.

The Work Incentives Improvement Act of 1999 ("REIT Modernization Act") amended the tax laws to permit REITs, effective January 1, 2001, to lease hotels to a subsidiary that qualifies as a taxable REIT subsidiary ("TRS"). Accordingly, a wholly-owned subsidiary of Host LP effectively terminated the leases with Crestline by acquiring the entities owning the leasehold interests with respect to 116 of the full-service hotels from Crestline effective January 1, 2001 (see Note 2).

As of December 31, 2000, the Company owned, or had controlling interests in, 122 upscale and luxury, full-service hotel lodging properties generally located throughout the United States and Canada and operated primarily under the Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Swissotel brand names. Of these properties, 109 are managed or franchised by Marriott International, Inc. and its subsidiaries ("Marriott International"). Host REIT also has economic, non-voting interests in certain Non-Controlled Subsidiaries, whose hotels are also managed by Marriott International (see Note 5).

Basis of Presentation

On December 15, 1998, shareholders of Host Marriott Corporation, ("Host Marriott"), a Delaware corporation and the predecessor to Host REIT, approved a plan to reorganize Host Marriott's business operations through the spin-off of Host Marriott's senior living business as part of Crestline and the contribution of Host Marriott's hotels and certain other assets and liabilities to a newly formed Delaware limited partnership, Host LP, Host Marriott merged into HMC Merger Corporation (the "Merger"), a newly formed Maryland corporation (renamed Host Marriott Corporation) which has elected to be treated, effective January 1, 1999, as a REIT and is the sole general partner of the Operating Partnership. Host Marriott and its subsidiaries' contribution of its hotels and certain assets and liabilities to the Operating Partnership and its subsidiaries (the "Contribution") in exchange for units of partnership interest in the Operating Partnership ("OP Units") was accounted for at Host Marriott's historical basis. As of December 31, 2000, Host REIT owned approximately 78% of the Operating Partnership.

On February 7, 2001, certain limited partners converted 12.5 million OP Units to Host REIT common shares and immediately sold them to an underwriter for sale on the open market. As a result, Host REIT now owns approximately 82% of the Operating Partnership. The Company received no proceeds as a result of the transaction.

In these consolidated financial statements, the "Company" or "Host Marriott" refers to Host Marriott Corporation before, and Host LP after Host Marriott Corporation's conversion to a REIT (the "REIT Conversion"). Host Marriott Corporation is presented as the predecessor to the Operating Partnership since the Operating Partnership and its subsidiaries received substantially all of the continuing operations, assets and liabilities of Host Marriott Corporation and its subsidiaries.

On December 29, 1998, the Company completed the previously discussed spin-off of Crestline (see Note 2), through a taxable stock dividend to its shareholders. Each Host Marriott shareholder of record on December 28, 1998 received one share of Crestline for every ten shares of Host Marriott common stock owned (the "Distribution").

As a result of the Distribution, the Company's financial statements were restated to present the senior living communities business results of operations and cash flows as discontinued operations. See Note 2 for further discussion of the Distribution.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and controlled affiliates. Investments in affiliates over which the Company has the ability to exercise significant influence, but does not control, are accounted for using the equity method. All material intercompany transactions and balances have been eliminated.

Fiscal Year End Change

The U.S. Internal Revenue Code of 1986, as amended, requires REITs to file their U.S. income tax return on a calendar year basis. Accordingly in 1998, the Company changed its fiscal year-end to December 31 for both financial and tax reporting requirements. Previously, the Company's fiscal year ended on the Friday nearest to December 31.

Revenues

The Company's 2000 and 1999 revenues primarily represent the rental income from its leased hotels, net gains on property transactions, interest income and equity in earnings of affiliates. The rent due under each lease is the greater of base rent or percentage rent, as defined. Percentage rent applicable to room, food and beverage and other types of hotel revenue varies by lease and is calculated by multiplying fixed percentages by the total amounts of such revenues over specified threshold amounts. Both the minimum rent and the revenue thresholds used in computing percentage rents are subject to annual adjustments based on increases in the United States Consumer Price Index and the Labor Index, as defined. As of year end 2000 and 1999, all annual thresholds were achieved.

The comparison of the 2000 and 1999 results with 1998 is also affected by a change in the reporting period for the Company's hotels not managed by Marriott International. In prior years, operations for certain of the Company's hotels were recorded from the beginning of December of the prior year to November of the current year due to a one-month delay in receiving results from those hotel properties. Upon conversion to a REIT, operations are required to be reported on a calendar year basis in accordance with Federal income tax regulations. As a result, the Company recorded one additional period of operations in fiscal year 1998 for these properties. The effect on revenues and net income was to increase revenues by $44 million and net income by $6 million and diluted earnings per unit by $0.02 in 1998.

As a result of the previously discussed transaction with Crestline, effective January 1, 2001, a wholly-owned subsidiary of the Company replaced Crestline as lessee with respect to 116 full-service properties. Beginning in 2001, the Company's consolidated results of operations will represent property-level revenues and expenses rather than rental income from lessees with respect to those 116 properties and, therefore, will not be comparable to 2000 and 1999 results.

Earnings (Loss) Per Unit

Basic earnings per unit is computed by dividing net income less distributions on preferred limited partner interests by the weighted average number of units outstanding. Diluted earnings per unit is computed by dividing net income less distributions on preferred limited partner interests as adjusted for potentially dilutive securities, by the weighted average number of units outstanding plus other potentially dilutive securities. Dilutive securities may include units distributed to Host REIT for Host REIT common shares granted under comprehensive stock plans and the Convertible Preferred Securities. Dilutive securities also include those common and preferred OP Units issuable or outstanding that are held by minority partners which are assumed to be converted. Diluted earnings per unit was not adjusted for the impact of the Convertible Preferred Securities for 2000 and 1999 as they were anti-dilutive. In December 1998, the Company declared the Special Dividend (see Note 3) and, in February 1999, Host REIT distributed 11.5 million shares to existing shareholders in conjunction with the Special Dividend. The weighted average number of units outstanding and the basic and diluted earnings per unit computations have been restated to reflect these shares as outstanding for all periods presented.

In February 1999, the Company distributed 8.5 million units to Host REIT for 8.5 million shares of Host REIT common stock issued in exchange for 8.5 million OP Units issued to certain limited partners in connection with the Partnership Mergers (see Note 13) which are deemed outstanding at December 31, 1998.

A reconciliation of the number of units utilized for the calculation of diluted earnings per unit follows:

	Year Ended								
	2000			1999			1998		
	Income (Numerator)	Units (Denominator)	Per Unit Amount	Income (Numerator)	Units (Denominator)	Per Unit Amount	Income (Numerator)	Units (Denominator)	Per Unit Amount
Net income.....	$207	284.2	$.73	$285	291.6	$.98	$47	216.3	$.22
Distributions on preferred limited partner units and preferred OP Units.....	(20)	--	(.07)	(6)	--	(.02)	--	--	--
Basic earnings available to unitholders per unit.....	$187	284.2	$.66	$279	291.6	$.96	$47	216.3	$.22
Assuming distribution of units to Host Marriott Corporation for Host Marriott Corporation common shares granted under the comprehensive stock plan, less shares assumed purchased at average market price.....	--	4.2	(.01)	--	5.3	(.02)	--	4.0	(.01)
Assuming conversion of Preferred OP Units.....	--	0.6	--	--	0.3	--	--	--	--
Assuming issuance of minority OP Units issuable under certain purchase agreements.....	--	--	--	7	10.9	(.01)	--	0.3	--
Assuming conversion of Convertible Preferred Securities.....	--	--	--	--	--	--	22	35.8	.06
Diluted Earnings per Unit.....	$187	289.0	$.65	$286	308.1	$.93	$69	256.4	$.27

International Operations

The consolidated statements of operations include the following amounts related to non-U.S. subsidiaries and affiliates: revenues of $26 million, $24 million, and $121 million, and income before income taxes of $6 million, $8 million and $7 million in 2000, 1999 and 1998, respectively.

Minority Interest

Minority interest consists of limited partnership interests in consolidated investments of $139 million and $136 million as of December 31, 2000 and 1999, respectively.

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 are capitalized.

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 accounting principles generally accepted in the United States. Deferred gains are recognized as income in subsequent periods as conditions requiring deferral are satisfied or expire without further cost to the Company.

In cases where management is holding for sale particular hotel properties, the Company assesses impairment based on whether the estimated sales price less costs of disposal of each individual property to be sold is less than the net book value. A property is considered to be held for sale when the Company has made the decision to dispose of the property. Otherwise, the Company assesses impairment of its real estate properties based on whether it is probable that undiscounted future cash flows from each individual property will be less than its net book value. If a property is impaired, its basis is adjusted to its fair market value.

Deferred Charges

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

Cash, Cash Equivalents and Short-term Marketable Securities

The Company considers all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents includes approximately $0 and $5 million at December 31, 2000 and 1999, respectively, of cash related to certain consolidated partnerships, the use of which is restricted generally for partnership purposes to the extent it is not distributed to the partners. Short-term marketable securities include investments with a maturity of 91 days to one year at the date of purchase. The Company's short-term marketable securities represent investments in U.S. government agency notes and high quality commercial paper. The short-term marketable securities are categorized as available for sale and, as a result, are stated at fair market value. Unrealized holding gains and losses are included as a separate component of partners' capital until realized.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and short-term marketable securities. The Company maintains cash and cash equivalents and short-term marketable securities with various high credit-quality financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

In addition, on January 1, 1999, subsidiaries of Crestline became the lessees of virtually all the hotels and, as such, their rent payments were the primary source of the Company's revenues during 2000 and 1999. For a more detailed discussion of Crestline's guarantee as lessee, see Note 10. The full-service hotel leases were grouped into four lease pools. Crestline, as lessee during 1999 and 2000, provided a guarantee limited to the greater of 10% of the aggregate rent payable for the preceding year or 10% of the aggregate rent payable under all leases in the respective pool. Additionally, Crestline's obligation as lessee under each lease agreement was guaranteed by all other lessees in the respective lease pool. As a result, the Company believed that the operating results of each full-service lease pool for fiscal years 2000 and 1999 might have been material to the Company's consolidated financial statements for those years. The separate consolidated financial statements of each full-service lease pool as of and for the years ended December 31, 2000 and 1999 are included in this filing.

As a result of the acquisition of the Crestline Lessee Entities during January 2001 (see Note 2), the third party credit concentration with Crestline ceased to exist. Effective January 1, 2001 the Company leases substantially all of the hotels to a wholly-owned TRS.

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 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.

REIT Conversion Expenses

The Company incurred certain costs related to the REIT Conversion. These costs consist of professional fees, printing and filing costs, consent fees and certain other related fees and are classified as REIT conversion expenses on the consolidated statement of operations. The Company recognized REIT conversion expense of $64 million in 1998.

Loss on Litigation Settlement

In connection with the settlement of litigation involving seven limited partnerships in which the Company or its subsidiaries serve as general partner, the Company recorded a non-recurring charge of $40 million during the fourth quarter of 1999. The loss is classified as the loss on litigation settlement on the consolidated statement of operations.

Interest Rate Swap Agreements

In the past, the Company entered into a limited number of interest rate swap agreements for non-trading purposes. The Company used such agreements to fix certain of its variable rate debt to a fixed rate basis. The interest rate differential to be paid or received on interest rate swap agreements was recognized as an adjustment to interest expense. The Company terminated its interest rate swap agreements in July 1999.

Other Comprehensive Income

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

	2000	1999
Net unrealized gains	$ 8	$ 9
Foreign currency translation adjustment	(7)	(5)
Total accumulated other comprehensive income (loss)	$ 1	$ 4

Application of New Accounting Standards

On December 3, 1999 the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 101, which codified the staff's position on revenue recognition. The Company retroactively changed its method of accounting for contingent rental revenues to conform to SAB No. 101. As a result, base rent is recognized as it is earned according to the applicable lease provisions. Percentage rent is recorded as deferred revenue on the balance sheet until the applicable hotel revenues exceed the threshold amounts. The Company adopted SAB No. 101 with retroactive effect beginning January 1, 1999.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement is effective for fiscal years beginning after June 15, 2000. The Company has determined that there will be no impact from the implementation of SFAS No. 133.

2. Lease Repurchase

On November 13, 2000, the Company announced the execution of a definitive agreement with Crestline for the termination of their lease arrangements through the purchase of the entities ("Crestline Lessee Entities") owning the leasehold interests with respect to 116 full-service hotel properties owned by the Company for $207 million in cash, including $6 million of legal and professional fees and transfer taxes. In connection therewith, during the fourth quarter of 2000 the Company recorded a non-recurring, pre-tax loss of $207 million net of a tax benefit of $82 million which the Company recognized as a deferred tax asset because, for income tax purposes, the acquisition is recognized as an asset that will be amortized over the next six years.

The transaction was consummated effective January 1, 2001. Under the terms of the transaction, a wholly-owned subsidiary of the Company, which will elect to be treated as a TRS for federal income tax purposes, acquired the Crestline Lessee Entities. As a result of the acquisition, the Company's consolidated results of operations beginning January 1, 2001 will represent property-level revenues and expenses rather than rental income from lessees with respect to those 116 full-service properties.

3. Distribution and Special Dividend

In December 1998, the Company distributed to its shareholders through a taxable distribution the outstanding shares of common stock of Crestline (the "Distribution"), formerly a wholly owned subsidiary of the Company, which, as of the date of the Distribution, owned and operated the Company's senior living communities, owned certain other assets and held leasehold interests in substantially all of the Company's hotels. The Distribution provided Company shareholders with one share of Crestline common stock for every ten shares of Company common stock held by such shareholders on the record date of December 28, 1998. As a result of

the Distribution, the Company's consolidated financial statements have been restated to present the senior living communities' business results of operations and cash flows as discontinued operations. Revenues for the Company's discontinued operations totaled $241 million in 1998. The provision for loss on disposal includes organizational and formation costs related to Crestline.

For purposes of governing certain of the ongoing relationships between the Company and Crestline after the Distribution and to provide for an orderly transition, the Company and Crestline entered into various agreements, including a Distribution Agreement, an Employee Benefits Allocation Agreement and a Tax Sharing Agreement. Effective as of December 29, 1998, these agreements provide, among other things, for the division between the Company and Crestline of certain assets and liabilities.

On December 18, 1998, the Board of Directors declared a special dividend which entitled shareholders of record on December 28, 1998 to elect to receive either $1.00 in cash or .087 of a share of common stock of the Company for each outstanding share of the Company's common stock owned by such shareholder on the record date (the "Special Dividend"). Cash totaling $73 million and 11.5 million shares of common stock that were elected in the Special Dividend were paid and/or issued in 1999.

4. Property and Equipment

Property and equipment consists of the following as of December 31, 2000 and 1999:

	2000	1999
	(in millions)	
Land and land improvements	$ 685	$ 687
Buildings and leasehold improvements	6,986	6,687
Furniture and equipment	793	712
Construction in progress	135	243
	8,599	8,329
Less accumulated depreciation and amortization	(1,489)	(1,221)
	$ 7,110	$ 7,108

Interest cost capitalized in connection with the Company's development and construction activities totaled $8 million in 2000, $7 million in 1999, and $4 million in 1998.

5. Investments in and Receivables from Affiliates

Investments in and receivables from affiliates consist of the following:

	Ownership Interests	2000	1999
		(in millions)	
Equity investments			
Rockledge Hotel Properties, Inc.	95%	$ 87	$ 47
Fernwood Hotel Assets, Inc.	95%	2	2
JWDC Limited Partnership	50%	39	--
Notes and other receivables from affiliates, net	--	164	127
		$292	$176

On May 16, 2000, the Company acquired for $40 million in cash a non-controlling interest in the JWDC Limited Partnership, which owns the JW Marriott Hotel, a 772-room hotel located on Pennsylvania Avenue in Washington, DC. The Company previously held a 17% limited partner interest in the venture through a non-controlled subsidiary.

In connection with the REIT Conversion, Rockledge Hotel Properties, Inc. ("Rockledge") and Fernwood Hotel Assets, Inc. (together, the "Non-Controlled Subsidiaries") were formed to own various assets of approximately $264 million contributed by the Company to the Operating Partnership, the direct ownership of which by the Company or Host REIT could jeopardize Host REIT's status as a REIT. These assets primarily consist of partnership or other interests in hotels which are not leased and certain furniture, fixtures and equipment ("FF&E") used in the hotels. In exchange for the contribution of these assets to the Non-Controlled Subsidiaries, the Operating Partnership received only non-voting common stock of the Non-Controlled Subsidiaries, representing 95% of the total economic interests therein. The Host Marriott Statutory Employee/Charitable Trust, the beneficiaries of which are certain employees of the Company and the J.W. Marriott Foundation concurrently acquired all of the voting common stock representing the remaining 5% of the total economic interest. The Non-Controlled Subsidiaries own three full-service hotels, an interest in a joint venture discussed below, and interests in partnerships that own an additional full-service hotel and 88 limited-service hotels. During February 2001, the Board of Directors of Host REIT approved the acquisition, through a TRS, of all of the voting common stock representing the remaining 5% of the total economic interest of the Non-Controlled Subsidiaries from the Host Marriott Statutory Employee/Charitable Trust. The transaction is permitted as a result of the REIT Modernization Act.

In addition, during December 2000, a newly created joint venture, ("Joint Venture") formed by Rockledge and Marriott International acquired the partnership interests in two partnerships that collectively own 120 limited service hotels for approximately $372 million plus interest and legal fees, of which Rockledge paid approximately $79 million. Previously, both partnerships were operated by Rockledge, as sole general partner. The Joint Venture acquired the two partnerships by acquiring partnership units pursuant to a tender offer for such units followed by a merger of the two partnerships with and into subsidiaries of the Joint Venture. The Joint Venture financed the acquisition with mezzanine indebtedness borrowed from Marriott International and with cash and other assets contributed by Rockledge and Marriott International, including Rockledge's existing general partner and limited partner interests in the partnerships. Rockledge, through its subsidiaries, owns a 50% non-controlling interest in the Joint Venture as of December 31, 2000.

In connection with the REIT Conversion, the Company completed the Partnership Mergers and, as a result, investments in affiliates in prior years include earnings and assets, which are now consolidated. (See Note 13 for discussion.)

Receivables from affiliates are reported net of reserves of $7 million at December 31, 2000 and 1999. Repayments were $3 million in 2000, $2 million in 1999 and $14 million in 1998.

The Company's pre-tax income from affiliates includes the following:

	2000	1999	1998
	(in millions)		
Interest income	$10	$11	$ 1
Equity in net income	25	6	1
	$35	$17	$ 2

Combined summarized balance sheet information for the Company's affiliates follows:

	2000	1999
	(in millions)	
Property and equipment, net	$1,471	$1,556
Other assets	335	329
Total assets	$1,806	$1,885
Debt, principally mortgages	$1,361	$1,533
Other liabilities	289	310
Equity (deficit)	156	42
Total liabilities and equity	$1,806	$1,885

Combined summarized operating results for the Company's affiliates follow:

	2000	1999	1998
	(in millions)		
Hotel revenues	$ 872	$ 913	$1,123
Operating expenses:			
Cash charges (including interest)	(710)	(728)	(930)
Depreciation and other non-cash charges	(126)	(138)	(151)
Income before extraordinary items	36	47	42
Extraordinary items--forgiveness of debt	68	--	4
Net income	$ 104	$ 47	$ 46

6. Debt

Debt consists of the following:

	2000	1999
	(in millions)	
Series A senior notes, with a rate of 7 7/8% due August 2005.....	$ 500	$ 500
Series B senior notes, with a rate of 7 7/8% due August 2008.....	1,194	1,193
Series C senior notes, with a rate of 8.45% due December 2008....	498	498
Series E senior notes, with a rate of 8 3/8% due February 2006...	300	300
Series F senior notes, with a rate of 9 1/4% due October 2007....	250	--
Senior secured notes, with a rate of 9 1/2% due May 2005.....	13	13
Senior notes, with an average rate of 9 3/4% maturing through 2012.....	35	35
Total senior notes.....	2,790	2,539
Mortgage debt (non-recourse) secured by $3.5 billion of real estate assets, with an average rate of 7.98% at December 31, 2000, maturing through February 2023.....	2,275	2,309
Line of credit, with a variable rate of Eurodollar plus 2.25% (9.04% at December 31, 2000).....	150	125
Other notes, with an average rate of 7.36% at December 31, 2000, maturing through December 2017.....	90	90
Capital lease obligations.....	17	6
Total other.....	257	221
	5,322	5,069
Convertible debt obligation to Host Marriott Corporation (see Note 7).....	492	514
	$5,814	$5,583

Public Debt. In October 2000, the Company issued $250 million of 9 1/4% Series F senior notes due in 2007, under the same indenture and with the same covenants as the New Senior Notes (described below). The net proceeds to the Company were approximately $245 million, after commissions and expenses of approximately $5 million. The proceeds were used for the $26 million repayment of the outstanding balance on the revolver portion of the bank credit facility, settlement of certain litigation, and to partially fund the acquisition of the Crestline Lessee Entities. The notes will be exchanged in the first quarter of 2001 for Series G senior notes on a one-for-one basis, which are freely transferable by the holders.

In February 1999, the Company issued $300 million of 8 3/8% Series D notes due in 2006 under the same indenture and with the same covenants as the New Senior Notes (described below). The debt was used to refinance, or purchase, approximately $299 million of debt acquired in the Partnership Mergers, including a $40 million variable rate mortgage and an associated swap agreement, which was terminated by incurring a termination fee of $1 million. The notes were exchanged in August 1999 for Series E Senior notes on a one-for-one basis, which are freely transferable by the holders.

In December 1998, the Operating Partnership issued $500 million of 8.45% Series C notes due in 2008 under the same indenture and with the same covenants as the New Senior Notes (described below).

On August 5, 1998, the Company issued an aggregate of $1.7 billion in new senior notes (the "New Senior Notes"). The New Senior Notes were issued in two series, $500 million of 7 7/8% Series A notes due in 2005 and $1.2 billion of 7 7/8% Series B notes due in 2008. The indenture under which the new Senior Notes were issued contains covenants restricting the ability of the Company and certain of its subsidiaries to incur indebtedness, grant liens on their assets, acquire or sell assets or make investments in other entities, and make

certain distributions to equity holders of the Company and the Operating Partnership. The Company utilized the proceeds from the New Senior Notes to purchase substantially all of its (i) $600 million in 9 1/2% senior notes due 2005; (ii) $350 million in 9% senior notes due 2007; and (iii) $600 million in 8 7/8% senior notes due 2007 (collectively, the "Old Senior Notes"). Approximately $13 million of the Old Senior Notes remain outstanding. In connection with the purchase of substantially all of the Old Senior Notes, the Company recorded a charge of approximately $148 million in 1998 (net of income tax benefit of $80 million) as an extraordinary item representing the amount paid for bond premiums and consent fees, as well as the write-off of deferred financing fees on the Old Senior Notes.

Concurrently with each offer to purchase, we successfully solicited consents (the "1998 Consent Solicitations") from registered holders of the Old Senior Notes to certain amendments to eliminate or modify substantially all of the restrictive covenants and certain other provisions contained in the indentures pursuant to which the Old Senior Notes were issued.

Bank Credit Facility. In August 1998, the Company entered into a $1.25 billion credit facility (the "Bank Credit Facility") with a group of commercial banks. The Bank Credit Facility had an initial three-year term with two one-year extension options. At origination, the facility consisted of a $350 million term loan and a $900 million revolver.

During June 2000, the Company modified its bank credit facility. As modified, the total facility has been permanently reduced to $775 million, consisting of a $150 million term loan and a $625 million revolver. In addition, the original term was extended for two additional years, through August 2003. Borrowings under the Bank Credit Facility bear interest currently at the Eurodollar rate plus 2.25% at December 31, 2000. The interest rate and commitment fee on the unused portion of the Bank Credit Facility fluctuate based on certain financial ratios. As of December 31, 2000, $150 million was outstanding under the Bank Credit Facility, and the available capacity under the revolver portion was $625 million. During the first quarter of 2001, the Company borrowed an additional $90 million under the revolver portion of the Bank Credit Facility to partially fund the acquisition of the Crestline Lessee Entities and for general corporate purposes.

The Bank Credit Facility contains covenants restricting the ability of the Company and certain of its subsidiaries to incur indebtedness, grant liens on their assets, acquire or sell assets or make investments in other entities, and make certain distributions to equity holders of the Company and the Operating Partnership. The Bank Credit Facility also contains certain financial covenants relating to, among other things, maintaining certain levels of tangible net worth and certain ratios of EBITDA to interest and fixed charges, total debt to EBITDA, unencumbered assets to unsecured debt, and secured debt to total debt. As of December 31, 2000, the Company was in compliance with all covenants.

In connection with the renegotiation of the Bank Credit Facility, the Company recognized an extraordinary loss of approximately $3 million during the second quarter of 2000, representing the write-off of deferred financing costs and certain fees paid to the lender.

During 1999, the Company repaid $225 million of the outstanding balance on the $350 million term loan portion of the Bank Credit Facility, permanently reducing the term loan portion to $125 million. In connection with these prepayments, an extraordinary loss of $2 million representing the write-off of deferred financing costs was recognized.

Mortgage Debt. In February 2000, the Company refinanced the $80 million mortgage on Marriott's Harbor Beach Resort property in Fort Lauderdale, Florida. The new mortgage is for $84 million, at a rate of 8.58%, and matures in March 2007.

In August 1999, the Company made a prepayment of $19 million to pay down in full the mezzanine mortgage on the Marriott Desert Springs Resort and Spa. In September 1999, the Company made a prepayment of $45 million to pay down in full the mortgage note on the Philadelphia Four Seasons Hotel.

In July 1999, the Company entered into a financing agreement pursuant to which it borrowed $665 million due 2009 at a fixed rate of 7.47% with eight hotels serving as collateral. The proceeds from this financing were used to refinance existing mortgage indebtedness maturing at various times through 2000, including approximately $590 million of outstanding variable rate mortgage debt.

In June 1999, the Company refinanced the debt on the San Diego Marriott Hotel and Marina. The mortgage is $195 million with a term of 10 years at a rate of 8.45%. In addition, the Company entered into a mortgage for the Philadelphia Marriott expansion in July 1999 for $23 million at an interest rate of approximately 8.6%, maturing in 2009.

In April 1999, a subsidiary of the Company completed the refinancing of the $245 million mortgage on the New York Marriott Marquis, maturing June 2000. In connection with the refinancing, the Company renegotiated the management agreement and recognized an extraordinary gain of $14 million on the forgiveness of accrued incentive management fees by the manager. This mortgage was subsequently refinanced as part of the $665 million financing agreement discussed above.

Interest Rate SWAP Agreements. During 1999, the Company terminated its outstanding interest rate SWAP agreements recognizing an extraordinary gain of approximately $8 million. The Company was party to an interest rate swap agreement with a financial institution with an aggregate notional amount of $100 million which expired in December 1998. The Company realized a net reduction of interest expense of $338,000 in 1999 related to interest rate swap agreements.

Aggregate debt maturities at December 31, 2000 are (in millions), excluding the convertible debt obligation to Host Marriott:

2001	$ 54
2002	161
2003	283
2004	53
2005	570
Thereafter	4,192
	5,313
Discount on senior notes	(8)
Capital lease obligation	17
	$5,322

Cash paid for interest for continuing operations, net of amounts capitalized, was $417 million in 2000, $413 million in 1999, and $325 million in 1998. Deferred financing costs, which are included in other assets, amounted to $108 million and $111 million, net of accumulated amortization, as of December 31, 2000 and 1999, respectively. Amortization of deferred financing costs totaled $15 million, $17 million, and $10 million in 2000, 1999, and 1998, respectively.

7. Convertible Debt Obligation to Host Marriott Corporation

The obligation for the $492 million and $514 million of 6 3/4% Convertible Subordinated Debentures (the "Debentures") as of December 31, 2000 and 1999, respectively, has been included in these financial statements as debt of the Company because upon the REIT Conversion the Operating Partnership assumed primary liability for repayment of the Debentures of Host Marriott underlying the Convertible Preferred Securities (defined below) of the Host Marriott Financial Trust (the "Issuer"), a wholly-owned subsidiary trust of Host Marriott. The common securities of Host Marriott Financial Trust were not contributed to the Operating Partnership and therefore Host Marriott Financial Trust is not consolidated by the Operating Partnership. Upon conversion by a Convertible Preferred Securities holder, Host Marriott will issue shares of its common stock which will be delivered to such holder. Upon the issuance of such shares by Host Marriott, the Operating Partnership will issue to Host Marriott the number of OP Units equal to the number of shares of the Host Marriott common stock issued in exchange for the Debentures.

In December 1996, Host Marriott Financial Trust issued 11 million shares of 6 3/4% convertible quarterly income preferred securities (the "Convertible Preferred Securities"), with a liquidation preference of $50 per share (for a total liquidation amount of $550 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Issuer. The payment of distributions out of moneys held by the Issuer and payments on liquidation of the Issuer or the redemption of the Convertible Preferred Securities are guaranteed by the Company to the extent the Issuer has funds available therefor. This guarantee, when taken together with the Company's obligations under the indenture pursuant to which the Debentures (defined below) were issued, the Debentures, the Company's obligations under the Trust Agreement and its obligations under the indenture to pay costs, expenses, debts and liabilities of the Issuer (other than with respect to the Convertible Preferred Securities) 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 6 3/4% Convertible Subordinated Debentures (the "Debentures") due December 2, 2026 issued by the Company. The Issuer exists solely to issue the Convertible Preferred Securities and its own common securities (the "Common Securities") and invest the proceeds therefrom in the Debentures. The note receivable from the Operating Partnership is the Issuer's sole asset.

Each of the Convertible Preferred Securities and the related debentures are convertible at the option of the holder into shares of Host Marriott Corporation common stock at the rate of 3.2537 shares per Convertible Preferred Security (equivalent to a conversion price of $15.367 per share of Host Marriott Corporation common stock). The Issuer will only convert Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. During 2000, 325 shares were converted into common stock. During 1999 and 1998, no shares were converted into common stock. The conversion ratio and price were adjusted to reflect the impact of the Distribution and the Special Dividend.

Holders of the Convertible Preferred Securities are entitled to receive preferential cumulative cash distributions at an annual rate of 6 3/4% accruing from the original issue date, commencing March 1, 1997, and payable quarterly in arrears thereafter. The distribution rate and the distribution and other payment dates for the Convertible Preferred Securities will correspond to the interest rate and interest and other payment dates on the Debentures. The Company may defer interest payments on the Debentures for a period not to exceed 20 consecutive quarters. If interest payments on the Debentures are deferred, so too are payments on the Convertible Preferred Securities. Under this circumstance, the Company will not be permitted to declare or pay any cash distributions with respect to its capital stock or debt securities that rank pari passu with or junior to the Debentures.

Subject to certain restrictions, the Convertible Preferred Securities are redeemable at the Issuer's option upon any redemption by the Company of the Debentures after December 2, 1999. Upon repayment at maturity

or as a result of the acceleration of the Debentures upon the occurrence of a default, the Debentures shall be subject to mandatory redemption, from which the proceeds will be applied to redeem Convertible Preferred Securities and Common Securities, together with accrued and unpaid distributions.

The Company repurchased 0.4 million and 1.1 million shares of Convertible Preferred Securities in 2000 and 1999, respectively, as part of the share repurchase program described below in Note 8, and in connection with those repurchases, the Operating Partnership exchanged 1.4 million and 3.4 million OP Units to Host REIT in exchange for the extinguishment of $22 million and $53 million of Debentures in 2000 and 1999, respectively.

8. Equity and Partners' Capital

284.9 million and 287.5 million common OP units were outstanding, of which Host REIT held 221.3 million and 223.5 million, as of December 31, 2000 and 1999, respectively. 8.16 million preferred limited partner units were outstanding as of December 31, 2000 and 1999.

Quarterly distributions of $0.21, $0.21, and $0.23 per common unit were paid on April 14, July 14, and October 16, 2000, respectively. In addition, a fourth quarter distribution of $0.26 per common unit was declared on December 18, 2000 and paid on January 12, 2001. A quarterly distribution of $0.21 per common unit was paid on April 14, July 14, and October 15 of 1999. A fourth quarter distribution of $0.21 per common unit was declared on December 20, 1999 and paid on January 17, 2000.

During 1999, approximately 586,000 Class TS cumulative redeemable preferred operating partnership units and approximately 26,000 Class AM cumulative redeemable preferred operating partnership units (together the "Preferred OP Units") were issued in connection with the acquisition of minority interests in two hotels. The Preferred OP Units are convertible into OP Units on a one-for-one basis, subject to adjustment in specified events, at any time beginning one year after acquisition, and after conversion to OP Units are redeemable for cash or at Host REIT's option, Host REIT common shares. The Company has the right to convert the Preferred OP Units to OP Units two years from the date of issuance. Preferred OP Unitholders are entitled to receive a preferential cash distribution of $0.21 per quarter. During 2000, all of the Class TS Preferred OP Units and approximately 7,000 of the Class AM Preferred OP Units were converted by the holders to common OP Units. During 2000, 593,000 Preferred OP Units were converted by their respective holders to common OP Units, and only 19,000 Preferred OP Units were outstanding as of December 31, 2000.

In September 1999, the Board of Directors of Host Marriott Corporation approved the repurchase, from time to time on the open market and/or in privately negotiated transactions, of up to 22 million of the outstanding shares of the common stock, operating partnership units, or a corresponding amount of the Convertible Preferred Securities, which are convertible into a like number of shares of common stock, based on the appropriate conversion ratio. Such repurchases will be made at management's discretion, subject to market conditions, and may be suspended at any time at the Company's discretion. For the year ended December 31, 2000, the Company repurchased 4.9 million common shares, 0.4 million shares of the Convertible Preferred Securities and 0.3 million OP Units for a total investment of $62 million. Since inception of the program, the Company has spent, in the aggregate, approximately $150 million to retire approximately 16.2 million equivalent units on a fully diluted basis.

In August 1999, Host REIT sold 4.16 million shares of 10% Class A preferred stock, and in November 1999, Host REIT sold 4.0 million shares of 10% Class B preferred stock. The Operating Partnership, in turn, issued equivalent securities, the Class A Preferred Units and Class B Preferred Units ("Class A and B Preferred Units"), to Host REIT. Holders of the preferred stock are entitled to receive cumulative cash dividends at a rate of 10% per annum of the $25.00 per share liquidation preference, payable quarterly in arrears commencing

October 15, 1999 and January 15, 2000 for the Class A and Class B preferred stock, respectively. After August 3, 2004 and April 29, 2005, Host REIT has the option to redeem the Class A Preferred Stock and Class B Preferred Stock, respectively, for $25.00 per share, plus accrued and unpaid dividends to the date of redemption. The Class A and B Preferred Units rank senior to the OP Units and the Preferred OP Units, and on a parity with each other. The preferred unitholders generally have no voting rights. Accrued distributions at December 31, 2000 were $5 million.

The Contribution and related transactions resulted in the exchange of 217.1 million OP Units for substantially all of the assets and liabilities of Host Marriott Corporation.

In conjunction with the Merger, the Blackstone Acquisition and the Partnership Mergers (Note 13), the Company issued approximately 73.5 million OP Units which are convertible into cash or shares of Host Marriott common stock, at Host Marriott's option. Approximately 63.6 million and 64.0 million of the OP Units were outstanding as of December 31, 2000 and 1999, respectively. On February 7, 2001, certain limited partners converted 12.5 million OP Units to Host REIT common shares and immediately sold them to an underwriter for sale on the open market. As a result, Host REIT now owns approximately 82% of the outstanding OP Units. The Company received no proceeds as a result of this transaction.

Host Marriott Corporation issued 11.5 million shares of common stock as part of the Special Dividend and 8.5 million shares of common stock in exchange for 8.5 million OP Units issued to certain limited partners in connection with the Partnership Mergers (Note 13). Also, as part of the REIT Conversion, Host Marriott Corporation changed its par value from $1 to $0.01 per share. The change in par value did not affect the number of shares outstanding.

9. Income Taxes

The Operating Partnership is not a tax paying entity. However, the Operating Partnership under the Operating Partnership Agreement is required to reimburse Host REIT for any tax payments Host REIT is required to make. Accordingly, the tax information included herein represents disclosures regarding Host REIT. As a result of the requirement of the Company to reimburse Host REIT for these liabilities, such liabilities and related disclosures are included in the Company's financial statements.

In December 1998, Host REIT restructured itself to enable Host REIT to qualify for treatment as a REIT, pursuant to the US Internal Revenue Code of 1986, as amended, effective January 1, 1999. In general, a corporation that elects REIT status and meets certain distribution requirements of its taxable income to its shareholders 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 to the extent it distributes its taxable income. In 2000 and 1999, Host REIT distributed 100% if its estimated taxable income which amounted to $.91 and $.84, respectively, per outstanding common share. The entire 2000 distribution was taxable as an ordinary dividend and of the total 1999 distribution, $.83 per share was taxable as ordinary income with the remaining $.01 per share taxable as a capital gain. Management believes that Host REIT was organized to qualify as a REIT at the beginning of January 1, 1999 and intends for it to qualify in subsequent years (including distribution of at least 95% of its REIT taxable income to shareholders each year, 90% beginning January 1, 2001). Management expects that Host REIT will pay taxes on "built-in gains" on only certain of its assets. Based on these considerations, management does not believe that Host REIT will be liable for income taxes at the federal level or in most of the states in which it operates in future years.

In order to qualify as a REIT for federal income tax purposes, among other things, Host REIT was required to distribute all of its accumulated earnings and profits ("E&P") to its stockholders in one or more taxable

dividends prior to December 31, 1999. To accomplish the requisite distributions of accumulated E&P, Host Marriott made distributions consisting of approximately 20.4 million shares of Crestline valued at $297 million, $73 million in cash, and approximately 11.5 million shares of Host Marriott stock valued at $138 million. Management believes it distributed all required E&P prior to December 31, 1999. Host REIT's final calculation of E&P and the distribution thereof is subject to review by the Internal Revenue Service.

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 tax planning strategies and other factors. As permitted by the REIT Modernization Act, the Company purchased the Crestline Lessee Entities with respect to 116 of its full-service hotels effective January 1, 2001. On December 31, 2000, the Company recorded a non-recurring, pretax loss provision of $207 million net of a tax benefit of $82 million which the Company has recognized as a deferred tax asset which the Company expects to realize over the remaining initial lease term.

Total deferred tax assets and liabilities at December 31, 2000 and December 31, 1999 were as follows:

	2000	1999
	(in millions)	
Deferred tax asset	$ 82	$ 10
Deferred tax liabilities	(54)	(59)
Net deferred income tax asset	$ 28	$(49)

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, 2000 and December 31, 1999 follows:

	2000	1999
	(in millions)	
Investment in hotel leases	$ 82	$ --
Safe harbor lease investments	(23)	(24)
Deferred tax gain	(31)	(35)
Alternative minimum tax credit carryforwards	--	10
Net deferred income tax asset	$ 28	$ (49)

The provision (benefit) for income taxes consists of:

	2000	1999	1998
	(in millions)		
Current --Federal	$(29)	$ 26	$116
--State	2	3	27
--Foreign	6	3	4
	(21)	32	147
Deferred--Federal	(66)	(37)	(49)
--State	(11)	(11)	(12)
	(77)	(48)	(61)
	$(98)	$(16)	$ 86

As of February 28, 2001, Host REIT had settled with the Internal Revenue Service substantially all outstanding issues for tax years through 1998. Host REIT expects to resolve any remaining issues with no material impact on the consolidated financial statements. Host REIT made net payments to the IRS of approximately $14 million in 1999 and $27 million in 1998 related to these settlements, and an additional $24 million was paid during the first quarter of 2001. As a result of settling these outstanding contingencies, Host REIT reversed $32 million and $26 million of recorded liabilities in 2000 and 1999, respectively, as a benefit to the tax provision.

A reconciliation of the statutory Federal tax rate to Host REIT's effective income tax rate follows (excluding the impact of the change in tax status and acquisition of the Crestline Lessee Entities):

	2000	1999	1998
Statutory Federal tax rate	0.0%	0.0%	35.0%
Built-in-gains	--	2.0	--
State income taxes, net of Federal tax benefit	1.9	.8	5.8
Tax credits	--	--	(1.7)
Tax on foreign source income	5.7	1.3	4.2
Tax benefit from termination of leases	(78.1)	--	--
Permanent non-deductible REIT Conversion expenses	--	--	4.6
Tax contingencies	(23.8)	(10.8)	--
Other permanent items	--	--	1.2
Other, net	1.0	--	0.3
Effective income tax rate	(93.3)%	(6.7)%	49.4%

Cash paid for income taxes, including IRS settlements, net of refunds received, was $30 million in 2000, $50 million in 1999 and $83 million in 1998.

10. Leases

Hotel Leases. Due to federal income tax law restrictions on a REIT's ability to derive revenues directly from the operation of a hotel, the Company leased its hotels (the "Leases") to one or more third party lessees (the "Lessees"), primarily subsidiaries of Crestline, effective January 1, 1999. The REIT Modernization Act amended the tax laws to permit REITs, effective January 1, 2001, to lease hotels to a subsidiary that qualifies as a TRS. Accordingly, a wholly-owned subsidiary of Host LP, which has elected to be treated as a TRS for federal income tax purposes, acquired the Crestline Lessee Entities owning the leasehold interests with respect to 116 of the Company's full-service hotels during January 2001. As a result, effective January 1, 2001, the TRS replaced Crestline as lessee under the applicable leases.

There generally is a separate lessee for each hotel or group of hotels that is owned by a separate subsidiary of the Company. The operating agreements for such Lessees provide that the Lessee has full control over the management of the business of the Lessee, subject to blocking rights by Marriott International, for hotel properties where it is the manager, over certain decisions by virtue of its non-economic, limited voting interest in the lessee subsidiaries. Each full-service hotel Lease has a fixed term generally ranging from seven to ten years, subject to earlier termination upon the occurrence of certain contingencies as defined in the Leases. Each Lease requires the Lessee to pay 1) minimum rent in a fixed dollar amount per annum plus 2) to the extent it exceeds minimum rent, percentage rent based upon specified percentages of aggregate sales from the applicable hotel, including room sales, food and beverage sales, and other income in excess of specified thresholds. The amount of minimum rent and the percentage rent thresholds will be adjusted each year based upon the average

of the increases in the Consumer Price Index and the Employment Cost Index during the previous 10 months, as well as for certain capital expenditures and casualty occurrences.

If the Company anticipates that the average tax basis of the Company's FF&E and other personal property that are leased by any individual lessor entity will exceed 15% of the aggregate average tax basis of the fixed assets in that entity, then the Lessee would be obligated either to acquire such excess FF&E from the Company or to cause a third party to purchase such FF&E. The Lessee has agreed to give a right of first opportunity to a Non-Controlled Subsidiary to acquire the excess FF&E and to lease the excess FF&E to the Lessee.

Each Lessee is responsible for paying all of the expenses of operating the applicable hotel(s), including all personnel costs, utility costs and general repair and maintenance of the hotel(s). The Lessee also is responsible for all fees payable to the applicable manager, including base and incentive management fees, chain services payments and franchise or system fees, with respect to periods covered by the term of the Lease. Host Marriott also remains liable under each management agreement.

The Company is responsible for paying real estate taxes, personal property taxes (to the extent the Company owns the personal property), casualty insurance on the structures, ground lease rent payments, required expenditures for FF&E (including maintaining the FF&E reserve, to the extent such is required by the applicable management agreement) and other capital expenditures.

Crestline Guarantees. During 1999 and 2000, Crestline and certain of its subsidiaries, as lessees under virtually all of the hotel leases, entered into limited guarantees of the Lease obligations of each Lessee. The full-service hotel leases are grouped into four lease pools (determined on the basis of the term of the particular Lease with all leases having generally the same lease term placed in the same "pool"). For each of the four identified pools, the cumulative limit of Crestline's guaranty obligation is the greater of 10% of the aggregate rent payable for the immediately preceding fiscal year under all Leases in the pool or 10% of the aggregate rent payable under all Leases in the pool. For each pool, the subsidiary of Crestline that is the parent of the Lessees in the pool (a "Pool Parent") also is a party to the guaranty of the Lease obligations for that pool. Effective January 1, 2001, a wholly-owned TRS of the Company replaced Crestline as lessee with respect to 116 of the Company's full-service hotels. As a result, there no longer is a significant third party credit concentration as of that date.

The obligations of the Pool Parent under each guaranty is secured by all funds received by the applicable Pool Parent from the hotels in the pool, and the hotels in the pool are required to distribute their excess cash flow to the Pool Parent for each accounting period, under certain conditions as described by the guaranty.

As a result of the limited guarantees of the lease obligations of the Lessees, the Company believes that the operating results of each full-service lease pool may be material to the Company's financial statements for the years ended December 31, 2000 and 1999. Separate financial statements for the year ended December 31, 2000 and 1999 for each of the four lease pools in which the Company's hotels were organized are presented in Item 8 of this Annual Report on Form 10-K. Financial information of certain pools related to the sublease agreements for limited service properties are not presented, as the Company believes they are not material to the Company's financial statements. Financial information of Crestline may be found in its quarterly and annual filings with the Securities and Exchange Commission.

The Operating Partnership sold the existing working capital to the applicable Lessee upon the commencement of the Lease at a price equal to the fair market value of such assets. The purchase price is represented by a note evidencing a loan that bears interest at a rate of 5.12%. Interest accrued on the working capital loan is due simultaneously with each periodic rent payment, and the amount of each payment of interest is credited against such rent payment. The principal amount of the working capital loan is payable upon

termination of the Lease. The Lessee can return the working capital in satisfaction of the note. As of December 31, 2000 and 1999, the note receivable from Crestline for working capital was $91 million and $90 million, respectively. In connection with the acquisition of the Crestline Lessee Entities, the working capital related to the 116 hotels, which was valued at approximately $90 million, was acquired by the Company's TRS.

In the event the Company enters into an agreement to sell or otherwise transfer any full-service hotel free and clear of the applicable Lease, the Lessor must pay the Lessee a termination fee equal to the lesser of (i) the fair market value of the Lessee's leasehold interest in the remaining term of the Lease using a discount rate of 12% or (ii) the allocated purchase price for that particular lease, reduced by any amounts reflected as deductions for federal income tax purposes. Alternatively, the Lessor will be entitled to (i) substitute a comparable hotel or hotels for any hotel that is sold or (ii) sell the hotel subject to the Lease and certain conditions without being required to pay a termination fee.

Hospitality Properties Trust Relationship. In a series of related transactions in 1995 and 1996, the Company sold and leased back 53 of its Courtyard properties and 18 of its 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 the option of the Company. Minimum rent payments are $51 million annually for the Courtyard properties and $17 million annually for the Residence Inn properties, and additional rent based upon sales levels are payable to the owner under the terms of the leases.

In connection with the REIT Conversion, the Operating Partnership sublet the HPT hotels (the "Subleases") to separate indirect sublessee subsidiaries of Crestline ("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 the HPT lessee (the "Sublessor") elects not to renew the HPT lease, or the Sublessee elects not to renew the Sublease at the expiration of the initial term 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 by Marriott hotels and one for Residence Inn hotels). Rent under the Sublease consists of the Minimum Rent payable under the HPT lease and an additional percentage rent payable to the Sublessor. The percentage rent is 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 amount is allocated between the two pools of HPT hotels.

Other Lease Information. A number of the Company's leased hotel properties also include long-term ground leases for certain hotels, generally with multiple renewal options. Certain leases contain provision for the payment of contingent rentals based on a percentage of sales in excess of stipulated amounts. Future minimum annual rental commitments for all non-cancelable leases for which the Company is the lessee are as follows:

	Capital Leases	Operating Leases
	(in millions)	
2001	$ 6	$ 105
2002	6	102
2003	6	97
2004	1	94
2005	1	92
Thereafter	1	1,231
Total minimum lease payments	21	$1,721
Less amount representing interest	(4)	
Present value of minimum lease payments	$17	

Certain of the lease payments included in the table above relate to facilities used in the Company's former restaurant business. Most leases contain one or more renewal options, generally for five or 10-year periods. Future rentals on leases have not been reduced by aggregate minimum sublease rentals from restaurants and HPT subleases of $61 million and $789 million, respectively, payable to the Company under non-cancellable subleases.

In conjunction with the refinancing of the mortgage of the New York Marriott Marquis in 1999, the Company also renegotiated the terms of the ground lease, retroactive to 1998. The renegotiated ground lease provides for the payment of a percentage of the hotel sales (3% in 1998, 4% in 1999 and 5% thereafter) through 2017, which is to be used to amortize the then existing deferred ground rent obligation of $116 million. The Company has the right to purchase the land under certain circumstances. The balance of the deferred ground rent obligation was $77 million and $86 million at December 31, 2000 and 1999, respectively, and is included in other liabilities on the consolidated balance sheets.

The Company remains contingently liable at December 31, 2000 on certain leases relating to divested non-lodging properties. Such contingent liabilities aggregated $68 million at December 31, 2000. However, management considers the likelihood of any substantial funding related to these leases to be remote.

Rent expense consists of:

	2000	1999	1998
	(in millions)		
Minimum rentals on operating leases	$107	$106	$104
Additional rentals based on sales	36	29	26
	$143	$135	$130

11. Employee Stock Plans

In connection with the REIT conversion, the Company assumed the employee obligations of Host REIT. Upon the exercise of stock options in Host REIT common stock, Host REIT will issue shares of its common stock in return for the issuance of an equal number of OP Units of the Company. Accordingly, those liabilities and related disclosures are included in the Company's consolidated financial statements.

At December 31, 2000, Host REIT maintained two stock-based compensation plans, including the comprehensive stock plan (the "Comprehensive Plan"), whereby Host REIT may award to participating employees (i) options to purchase Host REIT's common stock, (ii) deferred shares of Host REIT's common stock and (iii) restricted shares of Host REIT's common stock and the employee stock purchase plan (the "Employee Stock Purchase Plan"). Total shares of common stock reserved and available for issuance under the Comprehensive Plan at December 31, 2000 was 13.1 million.

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 Marriott International Distribution in 1993, Host Marriott issued an equivalent number of Marriott International options and adjusted the exercise prices of its options then outstanding based on the relative trading prices of shares of the common stock of companies.

In connection with the Host Marriott Services ("HM Services") spin-off in 1995, outstanding options held by current and former employees of the Company were redenominated in both Company 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 the Company and HM Services, the Company originally had the right to receive up to 1.4 million shares of HM Services' common stock or an equivalent cash value subsequent to 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 Host Marriott Services Corporation. Since Host Marriott Services is no longer publicly traded, all future payments to the Company will be made in cash, as Host Marriott Services Corporation has indicated that the receivable will not be settled in Autogrill SpA stock. As of December 31, 2000 and 1999, the receivable balance was approximately $8.8 million and $11.9 million, respectively, which is included in other assets in the accompanying consolidated balance sheets.

Effective December 29, 1998, the Company adjusted the number of outstanding stock options and the related exercise prices to maintain the intrinsic value of the options to account for the Special Dividend and the Distribution. The vesting provisions and option period of the original grant was retained. No compensation expense was recorded by the Company as a result of these adjustments. Employee optionholders that remained with the Company received options only in the Company's stock and those employee optionholders that became Crestline employees received Crestline options in exchange for the Company's options.

The Company continues to account for expense under its plans according to the provisions of Accounting Principle Board Opinion 25 and related interpretations as permitted under SFAS No. 123. Consequently, no compensation cost has been recognized for its fixed stock options under the Comprehensive Plan and its Employee Stock Purchase Plan.

For purposes of the following disclosures required by SFAS No. 123, the fair value of each option granted has been estimated on the date of grant using an option-pricing model with the following weighted average assumptions used for grants in 2000 and 1999, respectively: risk-free interest rates of 5.1% and 6.4%, volatility of 32% and 32%, expected lives of 12 years and 12 years, and dividend yield of $.91 per share and $0.84 per

share. The weighted average fair value per option granted during the year was $1.06 in 2000 and $1.15 in 1999. Pro forma compensation cost for 2000, 1999 and 1998 would have reduced net income by approximately $811,000, $919,000 and $524,000, respectively. Basic and diluted earnings per share on a pro forma basis were not impacted by the pro forma compensation cost in 2000, 1999 and 1998.

The effects of the implementation of SFAS No. 123 are not representative of the effects on reported net income in future years because only the effects of stock option awards granted in 1997 and subsequent years have been considered.

A summary of the status of the Company's stock option plan for 2000, 1999 and 1998 follows:

	2000		1999		1998	
	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	4.9	$ 4	5.6	$ 3	6.8	$ 4
Granted	.6	10	0.6	10	--	--
Exercised	(1.2)	3	(1.3)	3	(1.3)	5
Forfeited/Expired	(.1)	10	--	--	(0.6)	4
Adjustment for Distribution and Special Dividend	--	--	--	--	0.7	3
Balance, at end of year	4.2	$ 5	4.9	$ 4	5.6	$ 3
Options exercisable at year-end	3.2		4.2		5.5	

The following table summarizes information about stock options at December 31, 2000:

	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	2.4	6	$ 2	2.4	$ 2
4 - 6	0.3	8	6	0.3	6
7 - 9	0.7	12	9	0.4	8
10 - 12	0.7	15	11	0.1	12
13 - 15	--	12	15	--	15
16 - 19	0.1	12	18	--	18
	4.2			3.2	

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 employees may elect to defer payments until termination or retirement. The Company accrues compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures. In 2000, 1999 and 1998, 20,000, 11,000 and 12,000 shares were granted, respectively, under this plan. The compensation cost that has been charged against income for deferred stock was not material in 2000, 1999 and 1998. The weighted average fair value per share granted during each year was $9.44 in 2000, $14.31 in 1999 and $19.21 in 1998.

The Company from time to time awards restricted stock plan shares under the Comprehensive Plan to officers and key executives to be distributed over the next three to 10 years in annual installments based on

continued employment and the attainment of certain performance criteria. The Company recognizes compensation expense over the restriction period equal to the fair market value of the shares on the date of issuance adjusted for forfeitures, and where appropriate, the level of attainment of performance criteria and fluctuations in the fair market value of the Company's common stock. In 2000, 1999 and 1998, 889,000, 3,203,000, and 2,900 shares of additional restricted stock plan shares were granted to certain key employees under these terms and conditions. Approximately 106,000 and 747,000 shares were forfeited in 2000 and 1999, respectively. The Company recorded compensation expense of $11 million, $7.7 million and $11 million in 2000, 1999 and 1998, respectively, related to these awards. The weighted average grant date fair value per share granted during each year was $8.87 in 2000, $12.83 in 1999 and $18.13 in 1998. Under these awards 3,612,000 shares were outstanding at December 31, 2000.

In 1998, 568,408 stock appreciation rights ("SARs") were issued under the Comprehensive Plan to certain directors of the Company 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 the Company upon conversion to a REIT. The SARs are fully vested and the grant prices range from $1.20 to $5.13. In 2000, 1999 and 1998, the Company recognized compensation (income) expense of $1.4 million, $(2.7) million and $4.8 million, respectively, related to this grant. Additionally, in future periods, the Company will recognize compensation expense for outstanding SARs as a result of fluctuations in the market price of the Company's common stock.

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 market value at the end of the plan year.

12. Profit Sharing and Postemployment Benefit Plans

The Company contributes to profit sharing and other defined contribution plans for the benefit of employees meeting certain eligibility requirements and electing participation in the plans. The amount to be matched by the Company is determined annually by Host REIT's Board of Directors. The Company provides medical benefits to a limited number of retired employees meeting restrictive eligibility requirements. Amounts for these items were not material in 1998 through 2000.

13. Acquisitions and Dispositions

The Company acquired the remaining unaffiliated partnership interests in two full-service hotels by issuing approximately 612,000 cumulative preferred OP Units and paid cash of approximately $6.8 million. During 2000, the holders of approximately 593,000 cumulative preferred OP Units converted to common OP Units on a one-for-one basis.

The Company acquired or gained controlling interest in 36 hotels with 15,166 rooms in 1998. Twenty-five of the 1998 acquisitions, consisting of the Blackstone Acquisition and the Partnership Mergers, were completed on December 30, 1998 in conjunction with the REIT Conversion. Additionally, three full-service properties were contributed to one of the Non-Controlled Subsidiaries (Note 5). These acquisitions are summarized below.

In December 1998, the Company completed the acquisition of, or controlling interests in, twelve hotels and one mortgage loan secured by an additional hotel (the "Blackstone Acquisition") from the Blackstone Group, a Delaware limited partnership, and a series of funds controlled by affiliates of Blackstone Real Estate Partners (together, the "Blackstone Entities"). In addition, the Company acquired a 25% interest in Swissotel Management (USA) L.L.C., which operates five Swissotel hotels in the United States, which the Company transferred to Crestline in connection with the Distribution. The Operating Partnership issued approximately 47.7

million OP Units, which OP Units are redeemable for the Company's common stock (or cash equivalent at Host Marriott's option), assumed debt and made cash payments totaling approximately $920 million and distributed 1.4 million of the shares of Crestline common stock to the Blackstone Entities. As of December 31, 2000, the Blackstone Entities owned approximately 16% of the outstanding OP Units of the Operating Partnership. On February 7, 2001, the Blackstone Entities converted 12.5 million OP Units to common shares and immediately sold them to an underwriter for sale on the open market. As a result, the Blackstone Entities now own approximately 12% of the outstanding OP Units of the Operating Partnership.

In December 1998, the Company announced the completion of the Partnership Mergers which was the roll-up of eight public partnerships and four private partnerships which own or control 28 properties, 13 of which were already consolidated (the "Partnership Mergers"). The Operating Partnership issued approximately 25.8 million OP Units to partners for their interests valued at approximately $333 million. As of December 31, 2000, approximately 16.6 million OP Units remain outstanding.

As a result of these transactions, the Company increased its ownership of most of the 28 properties to 100% while consolidating 13 additional hotels (4,445 rooms).

During 1998, prior to the Partnership mergers, the Company acquired a controlling interest in the Atlanta Marriott Marquis II Limited Partnership, which owns an interest in the 1,671-room Atlanta Marriott Marquis for approximately $239 million. The Company also acquired a controlling interest in two partnerships that own four hotels for approximately $74 million. In addition, the Company acquired four Ritz-Carlton hotels and two additional hotels totaling over 2,200 rooms for approximately $465 million.

During 1999 and 1998, the Company disposed of seven hotels (2,430 rooms) for a total consideration of $410 million and recognized a net gain of $74 million.

During 2000 and 1999, respectively, approximately 652,000 and 467,000 OP Units were redeemed for common stock and an additional 360,000 and 233,000 OP Units were redeemed for $3 million and $2 million in cash.

14. Fair Value of Financial Instruments

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

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Receivables from affiliates	$ 164	$ 166	$ 127	$ 133
Notes receivable	47	44	48	48
Other	9	9	12	12
Financial liabilities				
Debt, net of capital leases and Convertible Debt Obligation to Host Marriott	5,305	5,299	5,063	4,790
Convertible Debt Obligation to Host Marriott	492	432	514	357

Short-term marketable securities and Senior Notes are valued based on quoted market prices. Receivables from affiliates, notes 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. The fair values of the Bank Credit Facility and other notes are estimated to be equal to their carrying value. The Convertible Debt Obligation to Host Marriott is valued based on the quoted market price of the Convertible Preferred Securities.

15. Marriott International Distribution and Relationship with Marriott International

The Company and Marriott International (formerly a wholly owned subsidiary, the common stock of which was distributed to the Company's shareholders on October 8, 1993) have entered into various agreements in connection with the Marriott International Distribution and thereafter which provide, among other things, that (i) the majority of the Company's hotel lodging properties are managed by Marriott International (see Note 16); (ii) nine of the Company's full-service properties are operated under franchise agreements with Marriott International with terms of 15 to 30 years; (iii) Marriott International and the Company formed a joint venture and Marriott International provided the Company with $29 million in debt financing at an average interest rate of 12.7% and $28 million in preferred equity in 1996 for the acquisition of two full-service properties in Mexico City, Mexico; and (iv) Marriott International provides certain limited administrative services.

Additionally, Marriott International has the right to purchase up to 20% of the voting stock of the Company if certain events involving a change in control of the Company occur.

During December 2000, the newly created Joint Venture formed by Rockledge and Marriott International acquired the partnership interests in two partnerships that collectively own 120 limited service hotels for approximately $372 million plus interest and legal fees (see Note 5). The Joint Venture financed the acquisition with mezzanine indebtedness borrowed from Marriott International and with cash and other assets contributed by Rockledge and Marriott International. Rockledge and Marriott International each own a 50% interest in the Joint Venture as of December 31, 2000.

In 1998, the Company paid to Marriott International $196 million in hotel management fees and $9 million in franchise fees. Beginning in 1999, these fees, totaling $240 million and $218 million in 2000 and 1999, respectively, were paid by the lessees (see Note 10). In 2000, 1999 and 1998, the Company paid to Marriott International $0.2 million, $0.3 million and $4 million, respectively, in interest and commitment fees under the debt financing and line of credit provided by Marriott International and $2 million, $3 million, and $3 million, respectively, for limited administrative services and office space. In connection with the discontinued senior living communities' business, the Company paid Marriott International $13 million in management fees during 1998.

16. Hotel Management Agreements

Most of the Company's hotels are subject to management agreements (the "Agreements") under which Marriott International manages the Company's 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 equal to one to four 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 the Company, 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. The Company has the option to terminate certain management agreements if specified performance thresholds are not satisfied. No agreement with respect to a single lodging facility is cross-collateralized or cross-defaulted to any other agreement and a single agreement may be canceled under certain conditions, although such cancellation will not trigger the cancellation of any other agreement.

As a result of the REIT Conversion, all fees payable under the Agreements for subsequent periods are the primary obligations of the Lessees. The obligations of the leases with Crestline were guaranteed to a limited extent by Crestline on 116 of the leases through December 31, 2000. The Company remained obligated to the managers in case the Lessee fails to pay these fees (but it would be entitled to reimbursement from the lessee under the terms of the Leases). Effective January 1, 2001, the Company effectively terminated the Crestline leases through the purchase of the Crestline Lessee Entities by the Company's wholly-owned TRS. The TRS will assume the obligations under the Agreements as lessee.

Pursuant to the terms of the Agreements, Marriott International is required to furnish the hotels with certain services ("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. In addition, the Company's hotels also participate in the Marriott Rewards program. The cost of this program is charged to all hotels in the Marriott hotel system.

The Lessees are obligated to provide the manager with sufficient funds 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' property and improvements. Under certain circumstances, the lessee will be required to establish escrow accounts for such purposes under terms outlined in the Agreements.

The Lessees assumed franchise agreements with Marriott International for 10 hotels. Pursuant to these franchise agreements, the Lessee generally pays 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 vary from four to six percent of sales, while fees for food and beverage sales vary from two to three percent of sales. The terms of the franchise agreements are from 15 to 30 years.

The Lessees assumed management agreements with The Ritz-Carlton Hotel Company, LLC ("Ritz-Carlton"), an affiliate of Marriott International, to manage nine of the Company's 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 are generally equal to 20% of available cash flow or operating profit, as defined in the agreements.

The Lessees also assumed management agreements with hotel management companies other than Marriott International and Ritz-Carlton for 23 of the Company's hotels (10 of which are franchised under the Marriott brand). 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. Seventeen of the 23 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.

17. Relationship with Crestline Capital Corporation

The Company and Crestline entered into various agreements in connection with the Distribution as discussed in Note 3 and further outlined below.

Distribution Agreement

Crestline and the Company entered into a distribution agreement (the "Distribution Agreement"), which provided for, among other things, (i) the distribution of shares of Crestline in connection with the Distribution;

(ii) the division between Crestline and the Company of certain assets and liabilities; (iii) the transfer to Crestline of the 25% interest in the Swissotel management company acquired in the Blackstone Acquisition and (iv) certain other agreements governing the relationship between Crestline and the Company following the Distribution. Crestline also granted the Company a contingent right to purchase Crestline's interest in Swissotel Management (USA) L.L.C. at fair market value in the event the tax laws are changed so that the Company could own such interest without jeopardizing its status as a REIT.

Subject to certain exceptions, the Distribution Agreement provides for, among other things, assumptions of liabilities and cross-indemnities designed to allocate to Crestline, effective as of the date of the Distribution, financial responsibilities for liabilities arising out of, or in connection with, the business of the senior living communities.

Asset Management Agreement

The Company and the Non-Controlled Subsidiaries entered into asset management agreements (the "Asset Management Agreements") with Crestline whereby Crestline agreed to provide advice on the operation of the hotels and review financial results, projections, loan documents and hotel management agreements. Crestline also agreed to consult on market conditions and competition, as well as monitor and negotiate with governmental agencies, insurance companies and contractors. Crestline was entitled to a fee not to exceed $4.5 million for each calendar year for its consulting services under the Asset Management Agreements, which included $0.25 million related to the Non-Controlled Subsidiaries. The Asset Management Agreements were terminated effective January 1, 2001 in connection with the acquisition of the Crestline Lessee Entities.

Non-Competition Agreement

Crestline and the Company entered into a non-competition agreement that limited the respective parties' future business opportunities. Pursuant to this non-competition agreement, Crestline agreed, among other things, that until the earlier of December 31, 2008, or the date on which it is no longer a Lessee of more than 25% of the number of hotels owned by the Company at the time of the Distribution, it would not own any full service hotel, manage any limited service or full service hotel owned by the Company, or own or operate a full service hotel franchise system operating under a common name brand, subject to certain exceptions. In addition, the Company agreed not to participate in the business of leasing, operating or franchising limited service or full service properties, subject to certain exceptions. In connection with the acquisition of the Crestline Lessee Entities, the non-competition agreement was terminated effective January 1, 2001.

18. Geographic and Business Segment Information

The Company operates one business segment, hotel ownership. The Company's hotels are primarily operated under the Marriott or Ritz-Carlton brands, contain an average of approximately 478 rooms as of December 31, 2000, as well as supply other amenities such as meeting space and banquet facilities; a variety of restaurants and lounges; gift shops and swimming pools. They are typically located in downtown, airport, suburban and resort areas throughout the United States. During most of 1998, the Company's foreign operations consisted of six full-service hotel properties located in Mexico and Canada. As of December 31, 1998, the Company's foreign operations had decreased to four Canadian hotel properties, as the hotels in Mexico were contributed to Rockledge Hotel Properties, Inc. There were no intercompany sales between the properties and the Company. The following table presents revenues and long-lived assets for each of the geographical areas in which the Company operates (in millions):

	2000		1999		1998	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$1,447	$6,991	$1,352	$6,987	$3,443	$7,112
International	26	119	24	121	121	89
Total	$1,473	$7,110	$1,376	$7,108	$3,564	$7,201

19. Supplemental Guarantor and Non-Guarantor Subsidiary Information

All subsidiaries of the Company guarantee the Senior Notes except those owning 48 of the Company's full service hotels and HMH HPT RIBM LLC and HMH HPT CBM LLC, the lessees of the Residence Inn and Courtyard properties, respectively. The separate financial statements of each guaranteeing subsidiary (each, a "Guarantor Subsidiary") are not presented because the Company's management has concluded that such financial statements are not material to investors. The guarantee of each Guarantor Subsidiary is full and unconditional and joint and several and each Guarantor Subsidiary is a wholly owned subsidiary of the Company.

The following condensed combined consolidating financial information sets forth the financial position as of December 31, 2000 and 1999 and results of operations and cash flows for the three fiscal years in the period ended December 31, 2000 of the parent, Guarantor Subsidiaries and the Non-Guarantor Subsidiaries:

Supplemental Condensed Combined Consolidating Balance Sheets
(in millions)

December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property and equipment, net	$1,181	$2,001	$3,928	$ --	$7,110
Investments in affiliate	2,618	1,715	--	(4,205)	128
Notes and other receivables	311	54	165	(319)	211
Rent receivable	13	10	42	--	65
Other assets	256	31	351	(74)	564
Cash, cash equivalents and marketable securities	244	34	35	--	313
Total assets	$4,623	$3,845	$4,521	$(4,598)	$8,391
Debt	$1,910	$1,215	$2,360	$ (163)	$5,322
Convertible debt obligation to Host Marriott	492	--	--	--	492
Other liabilities	474	127	322	(230)	693
Total liabilities	2,876	1,342	2,682	(393)	6,507
Minority interests	2	--	137	--	139
Limited partner interest of third parties at redemption value	823	--	--	--	823
Partners' capital	922	2,503	1,702	(4,205)	922
Total liabilities and partners' capital	$4,623	$3,845	$4,521	$(4,598)	$8,391

December 31, 1999

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property and equipment, net	$1,182	$1,969	$3,957	$ --	$7,108
Investments in affiliate	2,406	1,645	--	(4,002)	49
Notes and other receivables	364	55	172	(416)	175
Rent receivable	11	10	51	--	72
Other assets	176	50	353	(64)	515
Cash, cash equivalents and marketable securities	197	33	47	--	277
Total assets	$4,336	$3,762	$4,580	$(4,482)	$8,196
Debt	$1,627	$1,223	$2,420	$ (201)	$5,069
Convertible debt obligation to Host Marriott	514	--	--	--	514
Other liabilities	337	183	382	(279)	623
Total liabilities	2,478	1,406	2,802	(480)	6,206
Minority interests	4	--	132	--	136
Limited partner interest of third parties at redemption value	533	--	--	--	533
Partners' capital	1,321	2,356	1,646	(4,002)	1,321
Total liabilities and partners' capital	$4,336	$3,762	$4,580	$(4,482)	$8,196

Supplemental Condensed Combined Consolidating Statements of Operations
(in millions)

Fiscal Year Ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 632	$ 611	$ 780	$(550)	$1,473
Depreciation and amortization	(69)	(97)	(165)	--	(331)
Property-level expenses	(46)	(64)	(162)	--	(272)
Minority interest	(7)	--	(20)	--	(27)
Corporate expenses	(7)	(12)	(23)	--	(42)
Interest expense	(179)	(115)	(203)	31	(466)
Other expenses	(227)	(1)	(2)	--	(230)
Income from continuing operations before taxes	97	322	205	(519)	105
Benefit for income taxes	106	(5)	(3)	--	98
INCOME BEFORE EXTRAORDINARY ITEM	203	317	202	(519)	203
Extraordinary item--gain on extinguishment of debt (net of income taxes)	4	--	--	--	4
NET INCOME	$ 207	$ 317	$ 202	$(519)	$ 207

Fiscal Year Ended December 31, 1999

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 605	$ 599	$ 728	$(556)	$1,376
Depreciation and amortization	(60)	(83)	(150)	--	(293)
Property-level expenses	(52)	(57)	(155)	--	(264)
Minority interest	(4)	--	(17)	--	(21)
Corporate expenses	(6)	(9)	(19)	--	(34)
Interest expense	(189)	(130)	(197)	47	(469)
Other expenses	(42)	(9)	(4)	--	(55)
Income from continuing operations before taxes	252	311	186	(509)	240
Benefit for income taxes	24	(5)	(3)	--	16
INCOME BEFORE EXTRAORDINARY ITEM	276	306	183	(509)	256
Extraordinary item--gain on extinguishment of debt (net of income taxes)	9	--	20	--	29
NET INCOME	$ 285	$ 306	$ 203	$(509)	$ 285

Fiscal Year Ended December 31, 1998

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$1,034	$ 990	$ 1,660	$(120)	$ 3,564
Depreciation and amortization	(67)	(77)	(102)	--	(246)
Property-level expenses	(63)	(73)	(135)	--	(271)
Hotel operating expenses	(536)	(624)	(1,151)	--	(2,311)
Minority interest	(25)	--	(27)	--	(52)
Corporate expenses	(9)	(13)	(26)	--	(48)
Interest expense	(99)	(129)	(144)	37	(335)
Dividends on Convertible Preferred Securities	(37)	--	--	--	(37)
Other expenses	(87)	(2)	(1)	--	(90)
Income from continuing operations before taxes	111	72	74	(83)	174
Benefit (provision) for income taxes	79	(29)	(30)	--	20
Income from continuing operations	190	43	44	(83)	194
Income from discontinued operations	1	--	--	--	1
INCOME BEFORE EXTRAORDINARY ITEM	191	43	44	(83)	195
Extraordinary item--gain on extinguishment of debt (net of income taxes)	(144)	(3)	(1)	--	(148)
NET INCOME	$ 47	$ 40	$ 43	$ (83)	$ 47

Supplemental Condensed Combined Consolidating Statements of Cash Flows
(in millions)

Fiscal Year Ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from operations	$ 44	$ 169	$ 321	$ 534
INVESTING ACTIVITIES				
Net cash received from sales of assets	--	--	--	--
Capital expenditures	(82)	(132)	(165)	(379)
Acquisitions	--	(40)	--	(40)
Other	(29)	--	--	(29)
Cash used in investing activities	(111)	(172)	(165)	(448)
FINANCING ACTIVITIES				
Repayment of debt	(193)	(10)	(114)	(317)
Issuance of debt	451	--	89	540
Issuance of OP Units	4	--	--	4
Issuance of preferred limited partner units	--	--	--	--
Distributions on common and preferred limited partner units	(260)	--	--	(260)
Redemption or repurchase of OP Units for cash	(47)	--	--	(47)
Repurchase of Convertible Preferred Securities	(15)	--	--	(15)
Cost of extinguishment of debt	--	--	--	--
Transfer to/from Parent	173	15	(188)	--
Other	1	(1)	45	45
Cash from financing activities	114	4	(168)	(50)
INCREASE IN CASH AND CASH EQUIVALENTS	47	1	(12)	36
CASH AND CASH EQUIVALENTS, beginning of year	197	33	47	277
CASH AND CASH EQUIVALENTS, end of year	$ 244	$ 34	$ 35	$ 313

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from operations	$ 13	$ 127	$ 220	$ 360
INVESTING ACTIVITIES				
Net cash received from sales of assets	3	158	34	195
Capital expenditures	(129)	(101)	(131)	(361)
Acquisitions	(3)	(5)	(21)	(29)
Other	19	--	--	19
Cash used in investing activities	(110)	52	(118)	(176)
FINANCING ACTIVITIES				
Repayment of debt	(230)	(145)	(1,056)	(1,431)
Issuance of debt	290	23	1,032	1,345
Issuance of OP Units	5	--	--	5
Issuance of preferred limited partner units	196	--	--	196
Distributions on common and preferred limited partner units	(260)	--	--	(260)
Redemption or repurchase of OP Units for cash	(54)	--	--	(54)
Repurchase of Convertible Preferred Securities	(36)	--	--	(36)
Cost of extinguishment of debt	--	--	(2)	(2)
Transfer to/from Parent	79	(61)	(18)	--
Other	(25)	(1)	(80)	(106)
Cash from financing activities	(35)	(184)	(124)	(343)
INCREASE IN CASH AND CASH EQUIVALENTS	(132)	(5)	(22)	(159)
CASH AND CASH EQUIVALENTS, beginning of year	329	38	69	436
CASH AND CASH EQUIVALENTS, end of year	$ 197	$ 33	$ 47	$ 277

Fiscal Year Ended December 31, 1998

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from operations.....	$ 59	$ 217	$ 65	$ 341
INVESTING ACTIVITIES				
Net cash received from sales of assets.....	227	--	--	227
Capital expenditures.....	(50)	(109)	(93)	(252)
Acquisitions.....	(336)	(325)	(327)	(988)
Other.....	358	--	--	358
Cash from (used in) investing activities from continuing operations.....	199	(434)	(420)	(655)
Cash from (used in) investing activities from discontinued operations.....	(50)	--	--	(50)
Cash used in investing activities.....	149	(434)	(420)	(705)
FINANCING ACTIVITIES				
Repayment of debt.....	(1,828)	(128)	(168)	(2,124)
Issuance of debt.....	2,483	7	6	2,496
Cash contributed to Crestline at inception.....	(52)	--	--	(52)
Cash contributed to non-controlled subsidiary.....	(30)	--	--	(30)
Transfer to/from Parent.....	(846)	277	569	--
Other.....	(25)	--	--	(25)
Cash from (used in) financing activities from continuing operations.....	(298)	156	407	265
Cash from (used in) financing activities from discontinued operations.....	24	--	--	24
Cash from (used in) financing activities.....	(274)	156	407	289
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(66)	(61)	52	(75)
CASH AND CASH EQUIVALENTS, beginning of year.....	395	99	17	511
CASH AND CASH EQUIVALENTS, end of year.....	$ 329	$ 38	$ 69	$ 436

20. Quarterly Financial Data (unaudited)

	2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per unit amounts)				
Revenues	$ 185	$ 199	$ 239	$850	$1,473
Income from continuing operations before income taxes	(73)	(64)	(17)	259	105
Income from continuing operations	(74)	(66)	(21)	364	203
Income before extraordinary item	(74)	(66)	(21)	364	203
Net income (loss)	(69)	(68)	(21)	365	207
Net income (loss) available to unitholders	(74)	(73)	(27)	361	187
Basic earnings (loss) per unit:					
Income from continuing operations	(.28)	(.26)	(.09)	1.26	.64
Income before extraordinary items	.02	(.26)	(.09)	1.26	.64
Net income (loss)	(.26)	(.26)	(.09)	1.27	.66
Diluted earnings (loss) per unit:					
Income from continuing operations	(.28)	(.26)	(.09)	1.13	.63
Income before extraordinary items	.02	(.26)	(.09)	1.13	.63
Net income (loss)	(.26)	(.26)	(.09)	1.14	.65

	1999				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per unit amounts)				
Revenues	$ 192	$ 203	$ 203	$778	$1,376
Income from continuing operations before income taxes	(55)	(54)	(43)	392	240
Income from continuing operations	(56)	(55)	(44)	411	256
Income before extraordinary item	(56)	(55)	(44)	411	256
Net income (loss)	(56)	(42)	(40)	423	285
Net income (loss) available to unitholders	(56)	(42)	(41)	418	279
Basic earnings (loss) per unit:					
Income from continuing operations	(.19)	(.19)	(.16)	1.40	.86
Income before extraordinary items	(.19)	(.19)	(.16)	1.40	.86
Net income (loss)	(.19)	(.15)	(.14)	1.44	.96
Diluted earnings (loss) per unit:					
Income from continuing operations	(.19)	(.19)	(.16)	1.23	.83
Income before extraordinary items	(.19)	(.19)	(.16)	1.23	.83
Net income (loss)	(.19)	(.15)	(.14)	1.27	.93

In December 1999, the Company retroactively changed its method of accounting for contingent rental revenues to conform to the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101. As a result, contingent rental revenue is deferred on the balance sheet until certain revenue thresholds are realized. SAB No. 101 has no impact on full-year 2000 and 1999 revenues, net income, or earnings per share because all rental revenues considered contingent under SAB No. 101 were earned as of December 31, 2000 and 1999. The change in accounting principle has no effect prior to 1999 because percentage rent relates to rental income on our leases, which began in 1999.

For all years presented, the first three quarters consist of 12 weeks each and the fourth quarter includes 16 weeks. 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.

CCHP I CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2000 and December 31, 1999

With Independent Public Accountants' Report Thereon

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CCHP I Corporation:

We have audited the accompanying consolidated balance sheets of CCHP I Corporation and its subsidiaries (a Delaware corporation) as of December 29, 2000 and December 31, 1999, and the related consolidated statements of operations, shareholder's equity and cash flows for the fiscal years ended December 29, 2000 and December 31, 1999. These consolidated financial statements are the responsibility of CCHP I Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 CCHP I Corporation and its subsidiaries as of December 29, 2000 and December 31, 1999 and the results of their operations and their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
February 23, 2001

CCHP I CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 29, 2000 and December 31, 1999
(in thousands, except share data)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,849	$ 9,467
Due from hotel managers	5,862	3,890
Due from Crestline	682	--
Other current assets	62	--
	11,455	13,357
Hotel working capital	26,011	26,011
	$37,466	$39,368
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Lease payable to Host Marriott	$ 5,252	$ 5,792
Due to hotel managers	4,138	3,334
Other current liabilities	500	--
	9,890	9,126
Hotel working capital notes payable to Host Marriott	26,011	26,011
Deferred income taxes	1,565	1,027
Total liabilities	37,466	36,164
Shareholder's equity		
Common stock (100 shares issued at $1.00 par value)	--	--
Retained earnings	--	3,204
Total shareholder's equity	--	3,204
	$37,466	$39,368

See Notes to Consolidated Financial Statements.

CCHP I CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
REVENUES		
Rooms	$624,314	$585,381
Food and beverage	289,577	277,684
Other	63,848	65,069
Total revenues	977,739	928,134
OPERATING COSTS AND EXPENSES		
Property-level operating costs and expenses		
Rooms	148,482	141,898
Food and beverage	218,802	211,964
Other	254,248	241,996
Other operating costs and expenses		
Lease expense to Host Marriott	296,664	276,058
Management fees	47,172	40,659
Total operating costs and expenses	965,368	912,575
OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST	12,371	15,559
Corporate expenses	(1,224)	(1,367)
Interest expense	(1,332)	(1,585)
Interest income	334	--
INCOME BEFORE INCOME TAXES	10,149	12,607
Provision for income taxes	(4,289)	(5,169)
NET INCOME	$ 5,860	$ 7,438

See Notes to Consolidated Financial Statements.

CCHP I CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	Common Stock	Retained Earnings	Total
Balance, January 1, 1999	$--	$ --	$ --
Dividend to Crestline	--	(4,234)	(4,234)
Net income	--	7,438	7,438
Balance, December 31, 1999	--	3,204	3,204
Dividend to Crestline	--	(9,064)	(9,064)
Net income	--	5,860	5,860
Balance, December 29, 2000	$--	$ --	$ --

See Notes to Consolidated Financial Statements.

CCHP I CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
OPERATING ACTIVITIES		
Net income	$ 5,860	$ 7,438
Change in amounts due from hotel managers	(1,972)	(678)
Change in lease payable to Host Marriott	(540)	5,792
Changes in amounts due to hotel managers	804	1,149
Changes in other operating accounts	294	--
Cash from operations	4,446	13,701
FINANCING ACTIVITIES		
Dividend to Crestline	(9,064)	(4,234)
Increase (decrease) in cash and cash equivalents	(4,618)	9,467
Cash and cash equivalents, beginning of year	9,467	--
Cash and cash equivalents, end of year	$ 4,849	$ 9,467

See Notes to Consolidated Financial Statements.

CCHP I CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

CCHP I Corporation (the "Company") was incorporated in the state of Delaware on November 23, 1998 as a wholly owned subsidiary of Crestline Capital Corporation ("Crestline"). On December 29, 1998, Crestline became a publicly traded company when Host Marriott Corporation ("Host Marriott") completed its plan of reorganizing its business operations by spinning-off Crestline to the shareholders of Host Marriott as part of a series of transactions pursuant to which Host Marriott converted into a real estate investment trust ("REIT").

On December 31, 1998, wholly owned subsidiaries of the Company (the "Tenant Subsidiaries") entered into lease agreements with Host Marriott to lease 35 of Host Marriott's full-service hotels with the existing management agreements of the leased hotels assigned to the Tenant Subsidiaries. As of December 29, 2000, the Company leased 34 full-service hotels from Host Marriott.

The Company operates as a unit of Crestline, utilizing Crestline's employees, insurance and administrative services since the Company does not have any employees. Certain direct expenses are paid by Crestline and charged directly or allocated to the Company. Certain general and administrative costs of Crestline are allocated to the Company, using a variety of methods, principally including Crestline's specific identification of individual costs and otherwise through allocations based upon estimated levels of effort devoted by general and administrative departments to the Company or relative measures of the size of the Company based on revenues. In the opinion of management, the methods for allocating general and administrative expenses and other direct costs are reasonable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances between the Company and its subsidiaries have been eliminated.

Fiscal Year

The Company's fiscal year ends on the Friday nearest December 31.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at date of purchase as cash equivalents.

Revenues

The Company records the gross property-level revenues generated by the hotels as revenues.

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 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.

Note 2. Leases

Future minimum annual rental commitments for all non-cancelable leases as of December 29, 2000 are as follows (in thousands):

2001	$182,432
2002	175,108
2003	174,099
2004	159,082
2005	159,082
Thereafter	24,014
Total minimum lease payments	$873,817

Lease expense for the fiscal years 2000 and 1999 consisted of the following (in thousands):

	2000	1999
Base rent	$177,405	$167,996
Percentage rent	119,259	108,062
	$296,664	$276,058

Hotel Leases

The Tenant Subsidiaries entered into leases with Host Marriott effective January 1, 1999 for 35 full-service hotels. See Note 6 for a discussion of the sale of all but one of the full-service hotel leases in 2001.

Each hotel lease had an initial term generally ranging from three to seven years. The Tenant Subsidiaries were required to pay the greater of (i) a minimum rent specified in each hotel lease or (ii) a percentage rent based upon a specified percentage of aggregate revenues from the hotel, including room revenues, food and beverage revenues, and other income, in excess of specified thresholds. The amount of minimum rent is increased each year based upon 50% of the increase in CPI during the previous twelve months. Percentage rent thresholds are increased each year based on a blend of the increases in CPI and the Employment Cost Index during the previous twelve months. The hotel leases generally provided for a rent adjustment in the event of damage, destruction, partial taking or certain capital expenditures.

The Tenant Subsidiaries were responsible for paying all of the expenses of operating the hotels, including all personnel costs, utility costs, and general repair and maintenance of the hotels. In addition, the Tenant Subsidiaries were responsible for all fees payable to the hotel manager, including base and incentive management fees, chain services payments and franchise or system fees. Host Marriott was responsible for real estate and personal property taxes, property casualty insurance, equipment rent, ground lease rent, maintaining a reserve fund for FF&E replacements and capital expenditures.

For those hotels where Marriott International is the manager, it had a noneconomic membership interest with certain limited voting rights in the Tenant Subsidiaries.

FF&E Leases

Prior to entering into the hotel leases, if the average tax basis of a hotel's FF&E and other personal property exceeded 15% of the aggregate average tax basis of the hotel's real and personal property (the "Excess FF&E"),

the Tenant Subsidiaries and affiliates of Host Marriott entered into lease agreements (the "FF&E Leases") for the Excess FF&E. The terms of the FF&E Leases generally ranged from two to three years and rent under the FF&E Leases was a fixed amount.

Guaranty and Pooling Agreement

In connection with entering into the hotel leases, the Company, Crestline and Host Marriott, entered into a pool guarantee and a pooling and security agreement by which the Company provided a full guarantee and Crestline provided a limited guarantee of all of the hotel lease obligations.

The cumulative limit of Crestline's guarantee obligation was the greater of ten percent of the aggregate rent payable for the immediately preceding fiscal year under all of the Company's hotel leases or ten percent of the aggregate rent payable under all of the Company's hotel leases for 1999. In the event that Crestline's obligation under the pooling and guarantee agreement was reduced to zero, the Company could terminate the agreement and Host Marriott could terminate the Company's hotel leases without penalty.

All of the Company's leases were cross-defaulted and the Company's obligations under the guaranty were secured by all the funds received from its Tenant Subsidiaries.

Note 3. Working Capital Notes

Upon the commencement of the hotel leases, the Company purchased the working capital of the leased hotels from Host Marriott for $26,832,000 with the purchase price evidenced by notes that bear interest at 5.12%. Interest on each note is due simultaneously with the rent payment of each hotel lease. The principal amount of each note is due upon the termination of each hotel lease. See Note 6 for a discussion of the repayment of all but one of the hotel working notes in 2001. As of December 29, 2000, the outstanding balance of the working capital notes was $26,011,000.

Debt maturities at December 29, 2000 are as follows (in thousands):

2001	$ 1,340
2002	--
2003	3,005
2004	--
2005	21,666
	$26,011

Cash paid for interest expense in 2000 and 1999 totaled $1,351,000 and $1,463,000, respectively.

Note 4. Management Agreements

All of the Company's hotels are operated by hotel management companies under long-term hotel management agreements between Host Marriott and hotel management companies. The existing management agreements were assigned to the Tenant Subsidiaries upon the execution of the hotel leases for the term of each corresponding hotel lease. See Note 6 for a discussion of the transfer of all of the management contracts to Host Marriott in 2001.

The Tenant Subsidiaries were obligated to perform all of the obligations of Host Marriott under the hotel management agreements including payment of fees due under the management agreements other than certain

obligations including payment of property taxes, property casualty insurance and ground rent, maintaining a reserve fund for FF&E replacements and capital expenditures for which Host Marriott retained responsibility.

Marriott International manages 30 of the 34 hotels under long-term management agreements. The remaining four hotels are managed by other hotel management companies. The management agreements generally provide for payment of base management fees equal to one to four percent of revenues and incentive management fees generally equal to 20% to 50% of Operating Profit (as defined in the management agreements) over a priority return (as defined) to the Tenant Subsidiaries, with total incentive management fees not to exceed 20% of cumulative Operating Profit, or 20% of current year Operating Profit.

Note 5. Income Taxes

The Company is included in the consolidated Federal income tax return of Crestline and its affiliates (the "Group"). Tax expense is allocated to the Company as a member of the Group based upon the relative contribution to the Group's consolidated taxable income/loss and changes in temporary differences. This allocation method results in Federal, state and Canadian tax expense allocated for the period presented that is substantially equal to the expense that would have been recognized if the Company had filed separate tax returns.

The provision for income taxes for the fiscal years 2000 and 1999 consists of the following (in thousands):

	2000	1999
Current	$3,945	$4,142
Deferred	344	1,027
	$4,289	$5,169

The significant difference between the Company's effective income tax rate and the Federal state tax rate is attributable to the state and Canadian tax rates.

As of December 29, 2000 and December 31, 1999, the Company had no deferred tax assets. The tax effect of the temporary difference that gives rise to the Company's deferred tax liability is generally attributable to the hotel working capital.

Note 6. Subsequent Event

On December 17, 1999, the Work Incentives Improvement Act was passed which contained certain tax provisions related to REITs commonly known as the REIT Modernization Act ("RMA"). Under the RMA, beginning on January 1, 2001, REITs could lease hotels to a "taxable subsidiary" if the hotel is operated and managed on behalf of such subsidiary by an independent third party. This law enabled Host Marriott, beginning January 2001, to lease its hotels to a taxable subsidiary. Under the terms of the Company's full-service hotel leases, Host Marriott, at its sole discretion, could purchase the full-service hotel leases for a price equal to the fair market value of the Company's leasehold interest in the leases based upon an agreed upon formula in the leases.

On November 13, 2000, Crestline, the Company and the Tenant Subsidiaries entered into an agreement with a subsidiary of Host Marriott for the purchase and sale of Tenant Subsidiaries' leasehold interests in the full-service hotels. The purchase and sale transaction would generally transfer ownership of the Tenant Subsidiaries owned by the Company to a subsidiary of Host Marriott for a total consideration of $32.6 million in cash. On January 10, 2001, upon the receipt of all required consents, the purchase and sale transaction was completed for $28.2 million, which reflects the deferral of the sale of one of the leases for $4.4 million. The Company

recognized a pre-tax gain on the transaction of approximately $28 million in the first quarter of 2001, net of transaction costs. The effective date of the transaction was January 1, 2001.

In connection with the sale of the Tenant Subsidiaries, the hotel working capital notes for all but one of the full-service hotels were repaid. Accordingly, the Company's remaining hotel working capital notes payable to Host Marriott after the sale of the Tenant Subsidiaries on January 10, 2001 totaled $2,003,000.

CCHP II CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2000 and December 31, 1999

With Independent Public Accountants' Report Thereon

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CCHP II Corporation:

We have audited the accompanying consolidated balance sheets of CCHP II Corporation and its subsidiaries (a Delaware corporation) as of December 29, 2000 and December 31, 1999, and the related consolidated statements of operations, shareholder's equity and cash flows for the fiscal years ended December 29, 2000 and December 31, 1999. These consolidated financial statements are the responsibility of CCHP II Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 CCHP II Corporation and its subsidiaries as of December 29, 2000 and December 31, 1999 and the results of their operations and their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
February 23, 2001

CCHP II CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 29, 2000 and December 31, 1999
(in thousands, except share data)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,867	$ 8,856
Due from hotel managers	13,029	10,280
Due from Crestline	105	--
Other current assets	1,023	--
	19,024	19,136
Hotel working capital	18,090	18,090
	$37,114	$37,226
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Lease payable to Host Marriott	$15,565	$16,197
Due to hotel managers	2,085	958
Due to Crestline	--	288
	17,650	17,443
Hotel working capital notes payable to Host Marriott	18,090	18,090
Deferred income taxes	1,374	996
Total liabilities	37,114	36,529
Shareholder's equity		
Common stock (100 shares issued at $1.00 par value)	--	--
Retained earnings	--	697
Total shareholder's equity	--	697
	$37,114	$37,226

See Notes to Consolidated Financial Statements.

CCHP II CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
REVENUES		
Rooms	$ 689,406	$ 646,624
Food and beverage	335,607	306,320
Other	66,971	64,876
Total revenues	1,091,984	1,017,820
OPERATING COSTS AND EXPENSES		
Property-level operating costs and expenses		
Rooms	167,839	158,279
Food and beverage	249,087	230,001
Other	244,590	231,668
Other operating costs and expenses		
Lease expense to Host Marriott	337,643	312,112
Management fees	75,268	66,672
Total operating costs and expenses	1,074,427	998,732
OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST	17,557	19,088
Corporate expenses	(1,372)	(1,499)
Interest expense	(926)	(928)
Interest income	536	--
INCOME BEFORE INCOME TAXES	15,795	16,661
Provision for income taxes	(6,529)	(6,831)
NET INCOME	$ 9,266	$ 9,830

See Notes to Consolidated Financial Statements.

CCHP II CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	Common Stock	Retained Earnings	Total
Balance, January 1, 1999	$--	$ --	$ --
Dividend to Crestline	--	(9,133)	(9,133)
Net income	--	9,830	9,830
Balance, December 31, 1999	--	697	697
Dividend to Crestline	--	(9,963)	(9,963)
Net income	--	9,266	9,266
Balance, December 29, 2000	$--	$ --	$ --

See Notes to Consolidated Financial Statements.

CCHP II CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
OPERATING ACTIVITIES		
Net income	$ 9,266	$ 9,830
Change in amounts due from hotel managers	(2,749)	(9,322)
Change in lease payable to Host Marriott	(632)	16,197
Change in amounts due to hotel managers	1,127	--
Changes in other operating accounts	(1,038)	1,284
Cash from operations	5,974	17,989
FINANCING ACTIVITIES		
Dividend to Crestline	(9,963)	(9,133)
Increase (decrease) in cash and cash equivalents	(3,989)	8,856
Cash and cash equivalents, beginning of year	8,856	--
Cash and cash equivalents, end of year	$ 4,867	$ 8,856

See Notes to Consolidated Financial Statements.

CCHP II CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

CCHP II Corporation (the "Company") was incorporated in the state of Delaware on November 23, 1998 as a wholly owned subsidiary of Crestline Capital Corporation ("Crestline"). On December 29, 1998, Crestline became a publicly traded company when Host Marriott Corporation ("Host Marriott") completed its plan of reorganizing its business operations by spinning-off Crestline to the shareholders of Host Marriott as part of a series of transactions pursuant to which Host Marriott converted into a real estate investment trust ("REIT").

On December 31, 1998, wholly owned subsidiaries of the Company (the "Tenant Subsidiaries") entered into lease agreements with Host Marriott to lease 28 of Host Marriott's full-service hotels with the existing management agreements of the leased hotels assigned to the Tenant Subsidiaries. As of December 29, 2000, the Company leased 28 full-service hotels from Host Marriott.

The Company operates as a unit of Crestline, utilizing Crestline's employees, insurance and administrative services since the Company does not have any employees. Certain direct expenses are paid by Crestline and charged directly or allocated to the Company. Certain general and administrative costs of Crestline are allocated to the Company, using a variety of methods, principally including Crestline's specific identification of individual costs and otherwise through allocations based upon estimated levels of effort devoted by general and administrative departments to the Company or relative measures of the size of the Company based on revenues. In the opinion of management, the methods for allocating general and administrative expenses and other direct costs are reasonable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances between the Company and its subsidiaries have been eliminated.

Fiscal Year

The Company's fiscal year ends on the Friday nearest December 31.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at date of purchase as cash equivalents.

Revenues

The Company records the gross property-level revenues generated by the hotels as revenues.

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 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.

Note 2. Leases

Future minimum annual rental commitments for all non-cancelable leases as of December 29, 2000 are as follows (in thousands):

2001	$ 174,747
2002	174,747
2003	174,747
2004	174,747
2005	174,747
Thereafter	174,746
Total minimum lease payments	$1,048,481

Lease expense for the fiscal years 2000 and 1999 consisted of the following (in thousands):

	2000	1999
Base rent	$173,247	$167,755
Percentage rent	164,396	144,357
	$337,643	$312,112

Hotel Leases

The Tenant Subsidiaries entered into leases with Host Marriott effective January 1, 1999 for 28 full-service hotels. See Note 6 for a discussion of the sale of all of the full-service hotel leases in 2001.

Each hotel lease had an initial term of eight years. The Tenant Subsidiaries were required to pay the greater of (i) a minimum rent specified in each hotel lease or (ii) a percentage rent based upon a specified percentage of aggregate revenues from the hotel, including room revenues, food and beverage revenues, and other income, in excess of specified thresholds. The amount of minimum rent is increased each year based upon 50% of the increase in CPI during the previous twelve months. Percentage rent thresholds are increased each year based on a blend of the increases in CPI and the Employment Cost Index during the previous twelve months. The hotel leases generally provide for a rent adjustment in the event of damage, destruction, partial taking or certain capital expenditures.

The Tenant Subsidiaries were responsible for paying all of the expenses of operating the hotels, including all personnel costs, utility costs, and general repair and maintenance of the hotels. In addition, the Tenant Subsidiaries were responsible for all fees payable to the hotel manager, including base and incentive management fees, chain services payments and franchise or system fees. Host Marriott was responsible for real estate and personal property taxes, property casualty insurance, equipment rent, ground lease rent, maintaining a reserve fund for FF&E replacements and capital expenditures.

For those hotels where Marriott International is the manager, it had a noneconomic membership interest with certain limited voting rights in the Tenant Subsidiaries.

FF&E Leases

Prior to entering into the hotel leases, if the average tax basis of a hotel's FF&E and other personal property exceeded 15% of the aggregate average tax basis of the hotel's real and personal property (the "Excess FF&E"), the Tenant Subsidiaries and affiliates of Host Marriott entered into lease agreements (the "FF&E Leases") for

the Excess FF&E. The terms of the FF&E Leases generally ranged from two to three years and rent under the FF&E Leases was a fixed amount.

Guaranty and Pooling Agreement

In connection with entering into the hotel leases, the Company, Crestline and Host Marriott, entered into a pool guarantee and a pooling and security agreement by which the Company provided a full guarantee and Crestline provided a limited guarantee of all of the hotel lease obligations.

The cumulative limit of Crestline's guarantee obligation was the greater of ten percent of the aggregate rent payable for the immediately preceding fiscal year under all of the Company's hotel leases or ten percent of the aggregate rent payable under all of the Company's hotel leases for 1999. In the event that Crestline's obligation under the pooling and guarantee agreement was reduced to zero, the Company could terminate the agreement and Host Marriott could terminate the Company's hotel leases without penalty.

All of the Company's leases were cross-defaulted and the Company's obligations under the guaranty were secured by all the funds received from its Tenant Subsidiaries.

Note 3. Working Capital Notes

Upon the commencement of the hotel leases, the Company purchased the working capital of the leased hotels from Host Marriott for $18,090,000 with the purchase price evidenced by notes that bear interest at 5.12%. Interest on each note is due simultaneously with the rent payment of each hotel lease. The principal amount of each note is due upon the termination of each hotel lease. See Note 6 for a discussion of the repayment of all of the hotel working capital notes in 2001. As of December 29, 2000, the outstanding balance of the working capital notes was $18,090,000, which mature in 2006. Cash paid for interest expense in 2000 and 1999 totaled $926,000 and $856,000, respectively.

Note 4. Management Agreements

All of the Company's hotels are operated by hotel management companies under long-term hotel management agreements between Host Marriott and hotel management companies. The existing management agreements were assigned to the Tenant Subsidiaries upon the execution of the hotel leases for the term of each corresponding hotel lease. See Note 6 for a discussion of the transfer of all of the management agreements to Host Marriott in 2001.

The Tenant Subsidiaries were obligated to perform all of the obligations of Host Marriott under the hotel management agreements including payment of fees due under the management agreements other than certain obligations including payment of property taxes, property casualty insurance and ground rent, maintaining a reserve fund for FF&E replacements and capital expenditures for which Host Marriott retained responsibility.

Marriott International manages 23 of the 28 hotels under long-term management agreements. The Company's remaining five hotels are managed by other hotel management companies. The management agreements generally provide for payment of base management fees equal to one to four percent of revenues and incentive management fees generally equal to 20% to 50% of Operating Profit (as defined in the management agreements) over a priority return (as defined) to the Tenant Subsidiaries, with total incentive management fees not to exceed 20% of cumulative Operating Profit, or 20% of current year Operating Profit.

Note 5. Income Taxes

The Company is included in the consolidated Federal income tax return of Crestline and its affiliates (the "Group"). Tax expense is allocated to the Company as a member of the Group based upon the relative

contribution to the Group's consolidated taxable income/loss and changes in temporary differences. This allocation method results in Federal, state and Canadian tax expense allocated for the period presented that is substantially equal to the expense that would have been recognized if the Company had filed separate tax returns.

The provision for income taxes for the fiscal years 2000 and 1999 consists of the following (in thousands):

	2000	1999
Current	$5,904	$5,835
Deferred	625	996
	$6,529	$6,831

The significant difference between the Company's effective income tax rate and the Federal statutory tax rate is attributable to the state and Canadian tax rates.

As of December 29, 2000 and December 31, 1999, the Company had no deferred tax assets. The tax effect of the temporary differences that gives rise to the Company's federal deferred tax liability is generally attributable to the hotel working capital.

Note 6. Subsequent Event

On December 17, 1999, the Work Incentives Improvement Act was passed which contained certain tax provisions related to REITs commonly known as the REIT Modernization Act ("RMA"). Under the RMA, beginning on January 1, 2001, REITs could lease hotels to a "taxable subsidiary" if the hotel is operated and managed on behalf of such subsidiary by an independent third party. This law enabled Host Marriott, beginning January 2001, to lease its hotels to a taxable subsidiary. Under the terms of the Company's full-service hotel leases, Host Marriott, at its sole discretion, could purchase the full-service hotel leases for a price equal to the fair market value of the Company's leasehold interest in the leases based upon an agreed upon formula in the leases.

On November 13, 2000, Crestline, the Company and the Tenant Subsidiaries entered into an agreement with a subsidiary of Host Marriott for the purchase and sale of the Tenant Subsidiaries' leasehold interests in the full-service hotels. The purchase and sale transaction would generally transfer ownership of the Tenant Subsidiaries owned by the Company to a subsidiary of Host Marriott for a total consideration of $66.8 million in cash. On January 10, 2001, upon receipt of all required consents, the purchase and sale transaction was completed for $66.8 million. The Company will recognize a pre-tax gain on the transaction of approximately $66.6 million in the first quarter of 2001, net of transaction costs. The effective date of the transaction was January 1, 2001.

In connection with the sale of the Tenant Subsidiaries, all of the hotel working capital notes were repaid on January 10, 2001.

CCHP III CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2000 and December 31, 1999

With Independent Public Accountants' Report Thereon

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CCHP III Corporation:

We have audited the accompanying consolidated balance sheets of CCHP III Corporation and its subsidiaries (a Delaware corporation) as of December 29, 2000 and December 31, 1999, and the related consolidated statements of operations, shareholder's equity and cash flows for the fiscal years ended December 29, 2000 and December 31, 1999. These consolidated financial statements are the responsibility of CCHP III Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 CCHP III Corporation and its subsidiaries as of December 29, 2000 and December 31, 1999 and the results of their operations and their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
February 23, 2001

CCHP III CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 29, 2000 and December 31, 1999
(in thousands, except share data)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,069	$ 6,638
Due from hotel managers	11,062	8,214
Restricted cash	3,836	4,519
Due from Crestline	157	--
Other current assets	79	--
	18,203	19,371
Hotel working capital	21,697	21,697
	$39,900	$41,068
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Lease payable to Host Marriott	$13,733	$13,706
Due to hotel managers	3,514	3,379
Other current liabilities	750	760
	17,997	17,845
Hotel working capital notes payable to Host Marriott	21,697	21,697
Deferred income taxes	206	342
Total liabilities	39,900	39,884
Shareholder's equity		
Common stock (100 shares issued at $1.00 par value)	--	--
Retained earnings	--	1,184
Total shareholder's equity	--	1,184
	$39,900	$41,068

See Notes to Consolidated Financial Statements.

CCHP III CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
REVENUES		
Rooms	$598,264	$570,611
Food and beverage	283,921	274,233
Other	85,909	80,149
Total revenues	968,094	924,993
OPERATING COSTS AND EXPENSES		
Property-level operating costs and expenses		
Rooms	141,157	137,338
Food and beverage	209,791	202,181
Other	242,786	236,721
Other operating costs and expenses		
Lease expense to Host Marriott	313,611	295,563
Management fees	45,975	41,893
Total operating costs and expenses	953,320	913,696
OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST	14,774	11,297
Corporate expenses	(1,230)	(1,357)
Interest expense	(1,111)	(1,129)
Interest income	745	--
INCOME BEFORE INCOME TAXES	13,178	8,811
Provision for income taxes	(5,472)	(3,612)
NET INCOME	$ 7,706	$ 5,199

See Notes to Consolidated Financial Statements.

CCHP III CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	Common Stock	Retained Earnings	Total
Balance, January 1, 1999	$--	$ --	$ --
Dividend to Crestline	--	(4,015)	(4,015)
Net income	--	5,199	5,199
Balance, December 31, 1999	--	1,184	1,184
Dividend to Crestline	--	(8,890)	(8,890)
Net income	--	7,706	7,706
Balance, December 29, 2000	$--	$ --	$ --

See Notes to Consolidated Financial Statements.

CCHP III CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
OPERATING ACTIVITIES		
Net income	$ 7,706	$ 5,199
Change in amounts due from hotel managers	(2,848)	(4,084)
Change in lease payable to Host Marriott	27	13,706
Change in amounts due to hotel managers	135	--
Changes in other operating accounts	301	(4,168)
Cash from operations	5,321	10,653
FINANCING ACTIVITIES		
Dividend to Crestline	(8,890)	(4,015)
Increase (decrease) in cash and cash equivalents	(3,569)	6,638
Cash and cash equivalents, beginning of year	6,638	--
Cash and cash equivalents, end of year	$ 3,069	$ 6,638

See Notes to Consolidated Financial Statements.

CCHP III CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

CCHP III Corporation (the "Company") was incorporated in the state of Delaware on November 23, 1998 as a wholly owned subsidiary of Crestline Capital Corporation ("Crestline"). On December 29, 1998, Crestline became a publicly traded company when Host Marriott Corporation ("Host Marriott") completed its plan of reorganizing its business operations by spinning-off Crestline to the shareholders of Host Marriott as part of a series of transactions pursuant to which Host Marriott converted into a real estate investment trust ("REIT").

On December 31, 1998, wholly owned subsidiaries of the Company (the "Tenant Subsidiaries") entered into lease agreements with Host Marriott to lease 31 of Host Marriott's full-service hotels with the existing management agreements of the leased hotels assigned to the Tenant Subsidiaries. As of December 29, 2000, the Company leased 29 full-service hotels from Host Marriott.

The Company operates as a unit of Crestline, utilizing Crestline's employees, insurance and administrative services since the Company does not have any employees. Certain direct expenses are paid by Crestline and charged directly or allocated to the Company. Certain general and administrative costs of Crestline are allocated to the Company, using a variety of methods, principally including Crestline's specific identification of individual costs and otherwise through allocations based upon estimated levels of effort devoted by general and administrative departments to the Company or relative measures of the size of the Company based on revenues. In the opinion of management, the methods for allocating general and administrative expenses and other direct costs are reasonable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances between the Company and its subsidiaries have been eliminated.

Fiscal Year

The Company's fiscal year ends on the Friday nearest December 31.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at date of purchase as cash equivalents.

Restricted Cash

In connection with the lender requirements of one of the leased hotels, the Company is required to maintain a separate account with the lender on behalf of the Company for the operating profit and incentive management fees of the hotel. Following an annual audit, amounts will be distributed to the hotel's manager and to the Company in accordance with the loan agreement.

Revenues

The Company records the gross property-level revenues generated by the hotels as revenues.

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 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.

Note 2. Leases

Future minimum annual rental commitments for all non-cancelable leases as of December 29, 2000 are as follows (in thousands):

2001	$ 170,318
2002	170,318
2003	170,318
2004	170,318
2005	170,318
Thereafter	340,635
Total minimum lease payments	$1,192,225

Lease expense for fiscal years 2000 and 1999 consisted of the following (in thousands):

	2000	1999
Base rent	$170,318	$168,910
Percentage rent	143,293	126,653
	$313,611	$295,563

Hotel Leases

The Tenant Subsidiaries entered into leases with Host Marriott effective January 1, 1999 for 31 full-service hotels. See Note 6 for a discussion of the sale of all of the full-service hotel leases in 2001.

Each hotel lease had an initial term of nine years. The Tenant Subsidiaries were required to pay the greater of (i) a minimum rent specified in each hotel lease or (ii) a percentage rent based upon a specified percentage of aggregate revenues from the hotel, including room revenues, food and beverage revenues, and other income, in excess of specified thresholds. The amount of minimum rent is increased each year based upon 50% of the increase in CPI during the previous twelve months. Percentage rent thresholds are increased each year based on a blend of the increases in CPI and the Employment Cost Index during the previous twelve months. The hotel leases generally provide for a rent adjustment in the event of damage, destruction, partial taking or certain capital expenditures.

The Tenant Subsidiaries were responsible for paying all of the expenses of operating the hotels, including all personnel costs, utility costs, and general repair and maintenance of the hotels. In addition, the Tenant Subsidiaries were responsible for all fees payable to the hotel manager, including base and incentive management fees, chain services payments and franchise or system fees. Host Marriott was responsible for real estate and personal property taxes, property casualty insurance, equipment rent, ground lease rent, maintaining a reserve fund for FF&E replacements and capital expenditures.

For those hotels where Marriott International is the manager, it had a noneconomic membership interest with certain limited voting rights in the Tenant Subsidiaries.

FF&E Leases

Prior to entering into the hotel leases, if the average tax basis of a hotel's FF&E and other personal property exceeded 15% of the aggregate average tax basis of the hotel's real and personal property (the "Excess FF&E"), the Tenant Subsidiaries and affiliates of Host Marriott entered into lease agreements (the "FF&E Leases") for the Excess FF&E. The terms of the FF&E Leases generally ranged from two to three years and rent under the FF&E Leases was a fixed amount.

Guaranty and Pooling Agreement

In connection with entering into the hotel leases, the Company, Crestline and Host Marriott, entered into a pool guarantee and a pooling and security agreement by which the Company provided a full guarantee and Crestline provided a limited guarantee of all of the hotel lease obligations.

The cumulative limit of Crestline's guarantee obligation was the greater of ten percent of the aggregate rent payable for the immediately preceding fiscal year under all of the Company's hotel leases or ten percent of the aggregate rent payable under all of the Company's hotel leases for 1999. In the event that Crestline's obligation under the pooling and guarantee agreement was reduced to zero, the Company could terminate the agreement and Host Marriott could terminate the Company's hotel leases without penalty.

All of the Company's leases were cross-defaulted and the Company's obligations under the guaranty were secured by all the funds received from its Tenant Subsidiaries.

Note 3. Working Capital Notes

Upon the commencement of the hotel leases, the Company purchased the working capital of the leased hotels from Host Marriott for $22,046,000 with the purchase price evidenced by notes that bear interest at 5.12%. Interest on each note is due simultaneously with the rent payment of each hotel lease. The principal amount of each note is due upon the termination of each hotel lease. See Note 6 for a discussion of the repayment of all of the hotel working capital notes in 2001. As of December 29, 2000, the outstanding balance of the working capital notes was $21,697,000, which mature in 2007. Cash paid for interest expense in fiscal years 2000 and 1999 totaled $1,112,000 and $1,042,000, respectively.

Note 4. Management Agreements

All of the Company's hotels are operated by hotel management companies under long-term hotel management agreements between Host Marriott and hotel management companies. The existing management agreements were assigned to the Tenant Subsidiaries upon the execution of the hotel leases for the term of each corresponding hotel lease. See Note 6 for a discussion of the transfer of all of the management agreements to Host Marriott in 2001.

The Tenant Subsidiaries were obligated to perform all of the obligations of Host Marriott under the hotel management agreements including payment of fees due under the management agreements other than certain obligations including payment of property taxes, property casualty insurance and ground rent, maintaining a reserve fund for FF&E replacements and capital expenditures for which Host Marriott retained responsibility.

Marriott International manages 21 of the 29 hotels under long-term management agreements. The Company's remaining eight hotels are managed by other hotel management companies. The management agreements generally provide for payment of base management fees equal to one to four percent of revenues and incentive management fees generally equal to 20% to 50% of Operating Profit (as defined in the management

agreements) over a priority return (as defined) to the Tenant Subsidiaries, with total incentive management fees not to exceed 20% of cumulative Operating Profit, or 20% of current year Operating Profit.

Note 5. Income Taxes

The Company is included in the consolidated Federal income tax return of Crestline and its affiliates (the "Group"). Tax expense is allocated to the Company as a member of the Group based upon the relative contribution to the Group's consolidated taxable income/loss and changes in temporary differences. This allocation method results in Federal and net state tax expense allocated for the period presented that is substantially equal to the expense that would have been recognized if the Company had filed separate tax returns.

The provision for income taxes for the fiscal years 2000 and 1999 consists of the following (in thousands):

	2000	1999
Current	$5,382	$3,270
Deferred	90	342
	$5,472	$3,612

As of December 29, 2000 and December 31, 1999, the Company had no deferred tax assets. The tax effect of the temporary differences that gives rise to the Company's deferred tax liability is generally attributable to the hotel working capital.

Note 6. Subsequent Event

On December 17, 1999, the Work Incentives Improvement Act was passed which contained certain tax provisions related to REITs commonly known as the REIT Modernization Act ("RMA"). Under the RMA, beginning on January 1, 2001, REITs could lease hotels to a "taxable subsidiary" if the hotel is operated and managed on behalf of such subsidiary by an independent third party. This law enabled Host Marriott, beginning January 2001, to lease its hotels to a taxable subsidiary. Under the terms of the Company's full-service hotel leases, Host Marriott, at its sole discretion, could purchase the full-service hotel leases for a price equal to the fair market value of the Company's leasehold interest in the leases based upon an agreed upon formula in the leases.

On November 13, 2000, Crestline, the Company and the Tenant Subsidiaries entered into an agreement with a subsidiary of Host Marriott for the purchase and sale of the Tenant Subsidiaries' leasehold interests in the full-service hotels. The purchase and sale transaction would generally transfer ownership of the Tenant Subsidiaries owned by the Company to a subsidiary of Host Marriott for a total consideration of $55.1 million in cash. On January 10, 2001, upon receipt of all required consents, the purchase and sale transaction was completed for $55.1 million. The Company recognized a pre-tax gain on the transaction of approximately $55 million in the first quarter of 2001, net of transaction costs. The effective date of the transaction was January 1, 2001.

In connection with the sale of the Tenant Subsidiaries, all of the hotel working capital notes were repaid on January 10, 2001.

CCHP IV CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 29, 2000 and December 31, 1999

With Independent Public Accountants' Report Thereon

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CCHP IV Corporation:

We have audited the accompanying consolidated balance sheets of CCHP IV Corporation and its subsidiaries (a Delaware corporation) as of December 29, 2000 and December 31, 1999, and the related consolidated statements of operations, shareholder's equity and cash flows for the fiscal years ended December 29, 2000 and December 31, 1999. These consolidated financial statements are the responsibility of CCHP IV Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 CCHP IV Corporation and its subsidiaries as of December 29, 2000 and December 31, 1999 and the results of their operations and their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
February 23, 2001

CCHP IV CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 29, 2000 and December 31, 1999
(in thousands, except share data)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,699	$ 3,487
Due from hotel managers	24,984	14,571
Due from Crestline	--	3,487
Other current assets	544	--
	27,227	21,545
Hotel working capital	16,522	16,522
	$43,749	$38,067
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Lease payable to Host Marriott	$21,561	$20,348
Due to hotel managers	2,246	446
Other current liabilities	602	10
	24,409	20,804
Hotel working capital notes payable to Host Marriott	16,522	16,522
Deferred income taxes	666	741
Total liabilities	41,597	38,067
Shareholder's equity		
Common stock (100 shares issued at $1.00 par value)	--	--
Retained earnings	2,152	--
Total shareholder's equity	2,152	--
	$43,749	$38,067

See Notes to Consolidated Financial Statements.

CCHP IV CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
REVENUES		
Rooms	$ 630,427	$578,321
Food and beverage	358,604	333,120
Other	88,221	77,368
Total revenues	1,077,252	988,809
OPERATING COSTS AND EXPENSES		
Property-level operating costs and expenses		
Rooms	140,593	129,051
Food and beverage	251,938	234,310
Other	250,690	231,547
Other operating costs and expenses		
Lease expense to Host Marriott	349,958	316,654
Management fees	75,832	66,514
Total operating costs and expenses	1,069,011	978,076
OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST	8,241	10,733
Corporate expenses	(1,369)	(1,449)
Interest expense	(846)	(846)
Interest income	538	16
INCOME BEFORE INCOME TAXES	6,564	8,454
Provision for income taxes	(2,751)	(3,466)
NET INCOME	$ 3,813	$ 4,988

See Notes to Consolidated Financial Statements.

CCHP IV CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	Common Stock	Retained Earnings	Total
Balance, January 1, 1999	$--	$ --	$ --
Dividend to Crestline	--	(4,988)	(4,988)
Net income	--	4,988	4,988
Balance, December 31, 1999	--	--	--
Dividend to Crestline	--	(1,661)	(1661)
Net income	--	3,813	3,813
Balance, December 29, 2000	$--	$ 2,152	$ 2,152

See Notes to Consolidated Financial Statements.

CCHP IV CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 29, 2000 and December 31, 1999
(in thousands)

	2000	1999
OPERATING ACTIVITIES		
Net income	$ 3,813	$ 4,988
Change in amounts due from hotel managers	(10,413)	(14,124)
Change in lease payable to Host Marriott	1,213	20,348
Change in amounts due to hotel managers	1,800	--
Changes in other operating accounts	3,460	750
Cash provided by (used in) operations	(127)	11,962
FINANCING ACTIVITIES		
Amounts advanced to Crestline	--	(3,487)
Dividend to Crestline	(1,661)	(4,988)
Cash used in financing activities	(1,661)	(8,475)
Increase (decrease) in cash and cash equivalents	(1,788)	3,487
Cash and cash equivalents, beginning of year	3,487	--
Cash and cash equivalents, end of year	$ 1,699	$ 3,487

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Organization

CCHP IV Corporation (the "Company") was incorporated in the state of Delaware on November 23, 1998 as a wholly owned subsidiary of Crestline Capital Corporation ("Crestline"). On December 29, 1998, Crestline became a publicly traded company when Host Marriott Corporation ("Host Marriott") completed its plan of reorganizing its business operations by spinning-off Crestline to the shareholders of Host Marriott as part of a series of transactions pursuant to which Host Marriott converted into a real estate investment trust ("REIT").

On December 31, 1998, wholly owned subsidiaries of the Company (the "Tenant Subsidiaries") entered into lease agreements with Host Marriott to lease 27 of Host Marriott's full-service hotels with the existing management agreements of the leased hotels assigned to the Tenant Subsidiaries. As of December 29, 2000, the Company leased 27 full-service hotels from Host Marriott.

The Company operates as a unit of Crestline, utilizing Crestline's employees, insurance and administrative services since the Company does not have any employees. Certain direct expenses are paid by Crestline and charged directly or allocated to the Company. Certain general and administrative costs of Crestline are allocated to the Company, using a variety of methods, principally including Crestline's specific identification of individual costs and otherwise through allocations based upon estimated levels of effort devoted by general and administrative departments to the Company or relative measures of the size of the Company based on revenues. In the opinion of management, the methods for allocating general and administrative expenses and other direct costs are reasonable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances between the Company and its subsidiaries have been eliminated.

Fiscal Year

The Company's fiscal year ends on the Friday nearest December 31.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at date of purchase as cash equivalents.

Revenues

The Company records the gross property-level revenues generated by the hotels as revenues.

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 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.

Note 2. Leases

Future minimum annual rental commitments for all non-cancelable leases as of December 29, 2000 are as follows (in thousands):

2001	$ 188,116
2002	188,116
2003	188,116
2004	188,116
2005	188,116
Thereafter	564,347
Total minimum lease payments	$1,504,927

Lease expense for the fiscal years 2000 and 1999 consisted of the following (in thousands):

	2000	1999
Base rent	$188,116	$183,048
Percentage rent	161,842	133,606
	$349,958	$316,654

Hotel Leases

The Tenant Subsidiaries entered into leases with Host Marriott effective January 1, 1999 for 27 full-service hotels. See Note 6 for a discussion of the sale of all of the full-service hotel leases in 2001.

Each hotel lease had an initial term of ten years. The Tenant Subsidiaries were required to pay the greater of (i) a minimum rent specified in each hotel lease or (ii) a percentage rent based upon a specified percentage of aggregate revenues from the hotel, including room revenues, food and beverage revenues, and other income, in excess of specified thresholds. The amount of minimum rent is increased each year based upon 50% of the increase in CPI during the previous twelve months. Percentage rent thresholds are increased each year based on a blend of the increases in CPI and the Employment Cost Index during the previous twelve months. The hotel leases generally provide for a rent adjustment in the event of damage, destruction, partial taking or certain capital expenditures.

The Tenant Subsidiaries were responsible for paying all of the expenses of operating the hotels, including all personnel costs, utility costs, and general repair and maintenance of the hotels. In addition, the Tenant Subsidiaries were responsible for all fees payable to the hotel manager, including base and incentive management fees, chain services payments and franchise or system fees. Host Marriott was responsible for real estate and personal property taxes, property casualty insurance, equipment rent, ground lease rent, maintaining a reserve fund for FF&E replacements and capital expenditures.

For those hotels where Marriott International is the manager, it had a noneconomic membership interest with certain limited voting rights in the Tenant Subsidiaries.

FF&E Leases

Prior to entering into the hotel leases, if the average tax basis of a hotel's FF&E and other personal property exceeded 15% of the aggregate average tax basis of the hotel's real and personal property (the "Excess FF&E"), the Tenant Subsidiaries and affiliates of Host Marriott entered into lease agreements (the "FF&E Leases") for

the Excess FF&E. The terms of the FF&E Leases generally ranged from two to three years and rent under the FF&E Leases was a fixed amount.

Guaranty and Pooling Agreement

In connection with entering into the hotel leases, the Company, Crestline and Host Marriott, entered into a pool guarantee and a pooling and security agreement by which the Company provided a full guarantee and Crestline provided a limited guarantee of all of the hotel lease obligations.

The cumulative limit of Crestline's guarantee obligation was the greater of ten percent of the aggregate rent payable for the immediately preceding fiscal year under all of the Company's hotel leases or ten percent of the aggregate rent payable under all of the Company's hotel leases for 1999. In the event that Crestline's obligation under the pooling and guarantee agreement was reduced to zero, the Company could terminate the agreement and Host Marriott could terminate the Company's hotel leases without penalty.

All of the Company's leases were cross-defaulted and the Company's obligations under the guaranty were secured by all the funds received from its Tenant Subsidiaries.

Note 3. Working Capital Notes

Upon the commencement of the hotel leases, the Company purchased the working capital of the leased hotels from Host Marriott for $16,522,000 with the purchase price evidenced by notes that bear interest at 5.12%. Interest on each note is due simultaneously with the rent payment of each hotel lease. The principal amount of each note is due upon the termination of each hotel lease. See Note 6 for a discussion of the repayment of all of the hotel working capital notes in 2001. As of December 29, 2000, the outstanding balance of the working capital notes was $16,522,000, which mature in 2008. Cash paid for interest expense in 2000 and 1999 totaled $846,000 and $781,000, respectively.

Note 4. Management Agreements

All of the Company's hotels are operated by hotel management companies under long-term hotel management agreements between Host Marriott and hotel management companies. The existing management agreements were assigned to the Tenant Subsidiaries upon the execution of the hotel leases for the term of each corresponding hotel lease. See Note 6 for a discussion of the transfer of all of the management agreements to Host Marriott in 2001.

The Tenant Subsidiaries were obligated to perform all of the obligations of Host Marriott under the hotel management agreements including payment of fees due under the management agreements other than certain obligations including payment of property taxes, property casualty insurance and ground rent, maintaining a reserve fund for FF&E replacements and capital expenditures for which Host Marriott retained responsibility.

Marriott International manages 23 of the 27 hotels under long-term management agreements. The Company's remaining four hotels are managed by other hotel management companies. The management agreements generally provide for payment of base management fees equal to one to four percent of revenues and incentive management fees generally equal to 20% to 50% of Operating Profit (as defined in the management agreements) over a priority return (as defined) to the Tenant Subsidiaries, with total incentive management fees not to exceed 20% of cumulative Operating Profit, or 20% of current year Operating Profit.

Note 5. Income Taxes

The Company is included in the consolidated Federal income tax return of Crestline and its affiliates (the "Group"). Tax expense is allocated to the Company as a member of the Group based upon the relative contribution to the Group's consolidated taxable income/loss and changes in temporary differences. This allocation method results in Federal and net state tax expense allocated for the period presented that is substantially equal to the expense that would have been recognized if the Company had filed separate tax returns.

The provision for income taxes for fiscal years 2000 and 1999 consists of the following (in thousands):

	2000	1999
Current	$2,452	$2,725
Deferred	299	741
	$2,751	$3,466

As of December 29, 2000 and December 31, 1999, the Company had no deferred tax assets. The tax effect of the temporary differences that gives rise to the Company's deferred tax liability is generally attributable to the hotel working capital.

Note 6. Subsequent Event

On December 17, 1999, the Work Incentives Improvement Act was passed which contained certain tax provisions related to REITs commonly known as the REIT Modernization Act ("RMA"). Under the RMA, beginning on January 1, 2001, REITs could lease hotels to a "taxable subsidiary" if the hotel is operated and managed on behalf of such subsidiary by an independent third party. This law enabled Host Marriott, beginning January 2001, to lease its hotels to a taxable subsidiary. Under the terms of the Company's full-service hotel leases, Host Marriott, at its sole discretion, could purchase the full-service hotel leases for a price equal to the fair market value of the Company's leasehold interest in the leases based upon an agreed upon formula in the leases.

On November 13, 2000, Crestline, the Company and the Tenant Subsidiaries entered into an agreement with a subsidiary of Host Marriott for the purchase and sale of the Tenant Subsidiaries' leasehold interests in the full-service hotels. The purchase and sale transaction would generally transfer ownership of the Lessee Entities owned by the Company to a subsidiary of Host Marriott for a total consideration of $46.1 million in cash. On January 10, 2001, upon receipt of all required consents, the purchase and sale transaction was completed for $46.1 million. The Company recognized a pre-tax gain on the transaction of approximately $46 million in the first quarter of 2001, net of the transaction costs. The effective date of the transaction was January 1, 2001.

In connection with the sale of the Tenant Subsidiaries, all of the hotel working capital notes were repaid on January 10, 2001.

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

None.

PART III

The information called for by Items 10-13 is incorporated by reference from Host Marriott Corporation's 2001 Annual Meeting of Shareholders Notice and Proxy Statement (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year covered by this report).

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

(i) FINANCIAL STATEMENTS

All financial statements of the registrant as 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:

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

(iii) 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 Host Marriott Corporation Registration Statement No. 333-64793).
3.1	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. Registration Statement No. 333-55807).
4.1	Guarantee Agreement, dated December 2, 1996, between Host Marriott, L.P. 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).
4.2(i)	Rights Agreement between Host Marriott, L.P. and The Bank of New York as Rights Agent dated as of November 23, 1998 (incorporated by reference to Host Marriott, L.P. Current Report on Form 8-K dated November 23, 1998).

Exhibit No.	Description
4.2(ii)	Amendment No. 1 to Rights Agreement between Host Marriott, L.P. and The Bank of New York as Rights Agent dated as of December 18, 1998 (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated December 18, 1998).
4.3	Indenture by and among HMC Acquisition Properties, Inc., as Issuer, HMC SFO, Inc., as Subsidiary Guarantors, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-00768).
4.4	Indenture by and among HMH Properties, Inc., as Issuer, HMH Courtyard Properties, Inc., HMC Retirement Properties, Inc., Marriott Financial Services, Inc., Marriott SBM Two Corporation, HMH Pentagon Corporation and Host Airport Hotels, Inc., as Subsidiary Guarantors, and Marine Midland Bank, as Trustee (incorporated by reference to Host Marriott Corporation Registration Statement 33-95058).
4.5	Indenture 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).
4.6	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 Registration Statement No. 333-19923).
4.7	Amended and Restated Trust Agreement, dated December 2, 1996, among Host Marriott Corporation, IBJ Schroeder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., Bruce D. Wardinski and Christopher G. Townsend, as Administrative Trustees (incorporated by reference to Exhibit 4.2 of Host Marriott Corporation Registration Statement No. 333-19923).
4.8	Amended and Restated Trust Agreement, dated as of December 29, 1998, among HMC Merger Corporation, as Depositor, IBJ Schroder Bank & Trust Company, as Property Trustee, Delaware Trust Capital Management, Inc., as Delaware Trustee, and Robert E. Parsons, Jr., Ed Walter and Christopher G. Townsend, as Administrative Trustees (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.1	Indenture between Host Marriott L.P., as Issuer, and Marine Midland Bank, as Indenture Trustee, and Form of 6.56% Callable Note due December 15, 2005 (incorporated by reference to Exhibit 4.1 of Host Marriott, L.P. Registration Statement No. 333-55807).
10.2	Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998 among Host Marriott, L.P., Host Marriott Hospitality, Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers, and Bankers Trust Company as Arranger and Administrative Agent (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated September 11, 1998).
10.3	First Amendment and Waiver of Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott, L.P., Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott Corporation, HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of November 25, 1998 (incorporated by reference to Exhibit 10.4 of Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).

Exhibit No.	Description
10.4	Second Amendment and Consent to Credit Agreement of Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott Corporation, Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott Corporation, HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of December 17, 1998 (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.5	Third Amendment and Waiver to Credit Agreement Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998, among Host Marriott Corporation, Host Marriott Hospitality Inc., HMH Properties, Inc., Host Marriott, L.P., HMC Capital Resources Corp., Various Banks, Wells Fargo Bank, National Association, The Bank of Nova Scotia and Credit Lyonnais New York Branch, as Co-Arrangers and Bankers Trust Company as Arranger and Administrative Agent dated as of March 15, 1999 (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.6	Host Marriott Corporation Executive Deferred Compensation Plan effective as of December 29, 1998 (formerly the Marriott Corporation Executive Deferred Compensation Plan) (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.7*	Host Marriott Corporation and Host Marriott, L.P. 1997 Comprehensive Incentive Stock Plan as amended and restated December 29, 1998.
10.8	Distribution Agreement dated as of September 15, 1993 between Marriott Corporation and Marriott International, Inc. (incorporated by reference from Host Marriott Corporation. Current Report on Form 8-K dated October 23, 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 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 and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation. Registration Statement No. 333-64793).
10.12	Amendment No. 4 to the Distribution Agreement by and among Host Marriott, L.P. and Marriott International Inc. (incorporated by reference to 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 Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.14	Tax Sharing Agreement dated as of October 5, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Current Report on Form 8-K dated October 23, 1993).
10.15	License Agreement dated as of December 29, 1998 by and among Host Marriott, L.P., Host Marriott, L.P., Marriott International, Inc. and Marriott Worldwide Corporation (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).

Exhibit No.	Description
10.16	Tax Administration Agreement dated as of October 8, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation. Current Report on Form 8-K dated October 23, 1993).
10.17	Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.18	First Amendment to Restated Noncompetition Agreement by and among Host Marriott Corporation, Marriott International, Inc. and Sodexho Marriott Services, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.19	Host Marriott Lodging Management Agreement--Marriott Hotels, Resorts and Hotels dated September 25, 1993 by and between Marriott Corporation and Marriott International, Inc. (incorporated by reference to Host Marriott Corporation Registration Statement No. 33-51707).
10.20	Host Marriott, L.P. Retirement and Savings Plan and Trust (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.21	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, L.P. Registration Statement No. 333-55807).
10.22	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).
10.23	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, L.P. Registration Statement No. 333-55807).
#10.24*	Form of Amended and Restated Lease Agreement.
#10.25	Form of Management Agreement for Full-Service Hotels (incorporated by reference to Host Marriott Corporation Registration Statement No. 33-51707).
#10.26	Form of Owner's Agreement (incorporated by reference to Crestline Capital Corporation Registration Statement No. 333-64657).
#10.27*	Form of Amendment No. 1 to Owner's Agreement.
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 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, Sodexho Marriott Services, Inc., Crestline Capital Corporation and Host Marriott, L.P. (incorporated by reference to Host Marriott Corporation 1998 Annual Report on Form 10-K filed March 26, 1999).
10.30	Amended and Restated Communities Noncompetition Agreement (incorporated by reference to Host Marriott Corporation Registration Statement No. 333-64793).
10.31	Registration Rights Agreement, dated as of October 6, 2000, by and among Host Marriott, L.P., the Guarantors named therein and the Purchasers named therein (incorporated by reference to Exhibit 10.39 of Host Marriott, L.P.'s Registration Statement Form S-4 No. 333-51944).

Exhibit No.	Description
10.32	Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998 and further Amended and Restated as of May 31, 2000 among Host Marriott Corporation, Host Marriott, L.P., Various Banks, and Bankers Trust Company, as Administrative Agent (incorporated by reference to Exhibit 10.40 of Host Marriott, L.P.'s Registration Statement Form S-4 No. 333-51944).
10.33	First Amendment to the Amended and Restated Credit Agreement dated as of June 19, 1997 and Amended and Restated as of August 5, 1998 and further Amended and Restated as of May 31, 2000 among Host Marriott Corporation, Host Marriott, L.P., Various Banks, and Bankers Trust Company, as Administrative Agent, dated as of October 6, 2000 (incorporated by reference to Exhibit 10.41 of Host Marriott, L.P.'s Registration Statement Form S-4 No. 333-51944).
10.34	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).
12.1*	Computation of Ratios of Earnings to Fixed Charges.
21*	List of Subsidiaries of Host Marriott, L.P.

- --------
\# Agreement filed is illustrative of numerous other agreements to which the Company is a party.
* Filed herewith.

(b) REPORTS ON FORM 8-K

- November 28, 2000--Report of the announcement that Host Marriott, L.P. ("Host LP"), has agreed to purchase certain subsidiaries of Crestline Capital Corporation ("Crestline") that own the leasehold interests with respect to 116 hotel properties owned by Host LP. Host LP will purchase these entities, whose primary assets are the leasehold interests, for approximately $201 million. Host LP also agreed to execute a standard management agreement with Crestline allowing them to operate the Plaza San Antonio hotel. Under the REIT Modernization Act, which was passed in December 1999 and will be effective beginning January 1, 2001, Host LP will be able to lease its hotels to a wholly-owned subsidiary through a taxable corporation which will elect to be treated as a taxable REIT subsidiary ("TRS"). Under the terms of the transaction, Host LP, through a subsidiary, will purchase the leases from Crestline on January 1, 2001.

- December 14, 2000--Report on Form 8-K/A amending the 8-K filed November 28, 2000 to include as an exhibit the Acquisition and Exchange Agreement by and among Host LP and Crestline Capital Corporation.

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, 2001.

Host Marriott, L.P.

By: /s/ Host Marriott Corporation
Its General Partner

By: /s/ Robert E. Parsons, Jr.
Robert E. Parsons, Jr.
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.

Signature	Title	Date
/s/ Christopher J. Nassetta Christopher J. Nassetta	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2001
/s/ Robert E. Parsons, Jr. Robert E. Parsons, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2001
/s/ Donald D. Olinger Donald D. Olinger	Senior Vice President and Corporate Controller (Principal Accounting Officer)	March 1, 2001
/s/ Richard E. Marriott Richard E. Marriott	Chairman of the Board of Directors	March 1, 2001
/s/ R. Theodore Ammon R. Theodore Ammon	Director	March 1, 2001
/s/ Robert M. Baylis Robert M. Baylis	Director	March 1, 2001
/s/ Terence C. Golden Terence C. Golden	Director	March 1, 2001
/s/ Ann McLaughlin Korologos Ann McLaughlin Korologos	Director	March 1, 2001

Signature	Title	Date
/s/ J.W. Marriott, Jr. J.W. Marriott, Jr.	Director	March 1, 2001
/s/ John G. Schreiber John G. Schreiber	Director	March 1, 2001
/s/ Harry L. Vincent, Jr. Harry L. Vincent, Jr.	Director	March 1, 2001

HOST MARRIOTT, L.P. AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2000
(in millions)

		Initial Costs			Gross Amount at December 31, 2000						
Description	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:											
New York Marriott Marquis Hotel, New York, NY.....	$ 263	$--	$ 552	$ 49	$--	$ 601	$ 601	$ (182)	1986	n/a	40
Other full-service properties, each less than 5% of total.....	$2,012	$749	$5,510	$795	$685	$6,369	$7,054	$ (869)	various	various	40
Total full-service.....	2,275	749	6,062	844	685	6,970	7,655	(1,051)			
Other properties, each less than 5% of total.....	--	40	27	(52)	--	16	16	(15)	various	n/a	various
Total.....	$2,275	$789	$6,089	$792	$685	$6,986	$7,671	$(1,066)			

HOST MARRIOTT, L.P. AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2000
(in millions)

Notes:

(A) The change in total cost of properties for the fiscal years ended December 31, 2000, 1999 and 1998 is as follows:

Balance at January 2, 1998	$5,317
Additions:	
Acquisitions	2,849
Capital expenditures and transfers from construction-in-progress	60
Deductions:	
Dispositions and other	(91)
Transfers to Non-Controlled Subsidiary	(139)
Transfers to Spin-Off (Crestline Capital Corporation)	(643)
Balance at December 31, 1998	7,353
Additions:	
Acquisitions	29
Capital expenditures and transfers from construction-in-progress	147
Deductions:	
Dispositions and other	(155)
Balance at December 31, 1999	7,374
Additions:	
Capital expenditures and transfers from construction-in-progress	306
Deductions:	
Dispositions and other	(9)
Balance at December 31, 2000	$7,671

HOST MARRIOTT, L.P. AND SUBSIDIARIES

REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2000
(in millions)

(B) The change in accumulated depreciation and amortization of real estate assets for the fiscal years ended December 31, 2000, 1999 and 1998 is as follows:

Balance at January 2, 1998	$ 506
Depreciation and amortization	132
Dispositions and other	(13)
Transfers to Non-Controlled Subsidiary	(29)
Transfers to Spin-Off (Crestline Capital Corporation)	(21)
Balance at December 31, 1998	575
Depreciation and amortization	243
Dispositions and other	35
Balance at December 31, 1999	853
Depreciation and amortization	215
Dispositions and other	(2)
Balance at December 31, 2000	$1,066

(C) The aggregate cost of properties for Federal income tax purposes is approximately $5,413 million at December 31, 2000.

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

Exhibit 10.7

HOST MARRIOTT CORPORATION
AND
HOST MARRIOTT, L.P.

1997 COMPREHENSIVE STOCK AND CASH INCENTIVE PLAN

AS AMENDED AND RESTATED DECEMBER 29, 1998

TABLE OF CONTENTS

HOST MARRIOTT CORPORATION
AND HOST MARRIOTT, L.P.
1997 COMPREHENSIVE STOCK AND CASH INCENTIVE PLAN
AS AMENDED AND RESTATED EFFECTIVE DECEMBER 29, 1998

PREAMBLE

WHEREAS, Host Marriott Corporation sponsors the Host Marriott Corporation 1997 Comprehensive Stock Incentive Plan (the "Plan"); and

WHEREAS, Host Marriott Corporation intends to enter into certain transactions pursuant to a plan to reorganize its business operations so that it will qualify as a real estate investment trust as of January 1, 1999 ("Host REIT Conversion"); and

WHEREAS, as part of the Host REIT Conversion, (i) Host Marriott Corporation will transfer its liabilities, including but not limited to liabilities relating to employee benefits to Host Marriott, L.P., (ii) Host Marriott Corporation will merge with and into HMC Merger Corporation (to be renamed Host Marriott Corporation), and (iii) holders of Host Marriott Corporation common stock will receive a dividend of outstanding common shares of Crestline Capital Corporation ("Crestline"); and

WHEREAS, in connection with the Host REIT Conversion, Host Marriott Corporation and Crestline have entered into a Distribution Agreement (the "Distribution Agreement") and Host Marriott Corporation and Host Marriott, L.P. have entered into a Contribution Agreement (the "Contribution Agreement"); and

WHEREAS, pursuant to the Distribution Agreement, Host Marriott Corporation and Crestline have agreed to enter into an agreement allocating responsibilities with respect to employee compensation, benefits, labor, and certain other employment matters pursuant to the terms and conditions set forth in the Employee Benefits and Other Employment Matters Allocation Agreement (the "Allocation Agreement"); and

WHEREAS, pursuant to the Contribution Agreement, Host Marriott Corporation and Host Marriott, L.P. have also agreed to enter into an agreement allocating responsibilities with respect to employee compensation, benefits, labor, and certain other employment matters pursuant to the terms and conditions set forth in the Allocation Agreement; and

WHEREAS, pursuant to the Allocation Agreement, (a) Host Marriott Corporation will continue to reserve those shares already reserved under the Plan, (b) all future awards under the Plan after the Host REIT Conversion will be denominated in Host Marriott Corporation common stock, and (c) the effect of the Distribution and the Host REIT Conversion on Existing HMC Stock Awards (as such term is defined in the Allocation Agreement) made under the Plan prior to the Distribution Date will be determined as provided in the Allocation Agreement; and

NOW, THEREFORE, this Host Marriott Corporation and Host Marriott, L.P. Comprehensive Stock and Cash Incentive Plan (the "Plan") amends and restates in its entirety the Host Marriott Corporation 1997 Comprehensive Stock Incentive Plan. Set forth herein are all of the terms of the three plans comprising the Plan, one for the benefit of the employees of Host Marriott Corporation (the "Host REIT Plan"), one for the benefit of the employees of Host Marriott, L.P., (the "Operating Partnership Plan"), and one for the benefit of the employees of any Subsidiary of Host Marriott Corporation or Host Marriott, L.P. (the "Subsidiary Companies Plan"). The Committee shall administer all three plans.

ARTICLE I
ESTABLISHMENT, PURPOSE AND DURATION

1.1 Establishment of the Plan . Host Marriott Corporation, a Maryland corporation ("Host Marriott Corporation") and Host Marriott, L.P., a Delaware Limited Partnership ("Operating Partnership") (collectively referred to herein as the "Company"), hereby amend and restate the 1997 Comprehensive Stock Incentive Plan to be known as the "Host Marriott Corporation and Host Marriott, L.P. 1999 Comprehensive Stock and Cash Incentive Plan" (hereinafter referred to as the "Plan"), as set forth in this document, effective as of the Contribution Date (as such term is defined in the Allocation Agreement), comprising the Host REIT Plan, the Operating Partnership Plan and the Subsidiary Companies Plan. The Plan shall also include the Host Marriott Corporation 1993 Comprehensive Stock Incentive Plan. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Bonus Awards, Deferred Stock Agreements, Stock Appreciation Rights, Special Recognition Awards and other stock-based Awards.

1.2 Purpose of the Plan. The purpose of the Plan is to promote and enhance the long-term growth, development and financial success of the Host Marriott Corporation, the Operating Partnership and any Subsidiary by aligning the personal interests of key management employees to those of Host Marriott Corporation shareholders and allowing such employees to participate in the growth, development and financial success of the Host Marriott Corporation. Awards under the Plan may be, but need not be, Performance-Based Awards.

The Plan is further intended to provide flexibility to Host Marriott Corporation, the Operating Partnership and the Subsidiaries in their ability to motivate, attract and retain the services of key employees who have been or will be given management responsibilities.

1.3 Duration of the Plan. This amendment and restatement of the Plan shall become effective on the Contribution Date, and shall remain in effect, subject to the right of the Board of Directors of the Host Marriott Corporation to terminate the Plan at any time pursuant to Article XVI hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

2.1 Definitions . Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Allocation Agreement" means the Employee Benefits Allocation and Other Employment Matters Agreement between the Host Marriott Corporation, Host Marriott, L.P. and Crestline Capital Corporation.

"Award " means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Deferred Stock, Special Recognition Stock Awards, 1998 Conversion Awards, Other Share-Based Awards, Other Cash Performance-Based Awards.

"Award Agreement" means an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to Awards granted under this Plan.

"Beneficial Owner " or "Beneficial Ownership" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

"Beneficiary" means the person or persons designated pursuant to Article XIII hereof.

"Board " or "Board of Directors" means the Board of Directors of Host Marriott Corporation.

"Chief Executive Officer" means the chief executive officer of the Company however such person may be titled.

"Code " means the Internal Revenue Code of 1986, as amended from time to time.

"Committee " means the Compensation Policy Committee of the Board, as specified in Article III herein, or such other Committee appointed by the Board to administer the Plan with respect to grants of Awards.

"Company" means Host Marriott Corporation, as to the Host REIT Plan, the Operating Company as to the Operating Partnership Plan, and any Subsidiary of Host Marriott Corporation or the Operating Partnership as to the Subsidiary Companies Plan.

"Contribution Date" means the Contribution Date as defined in the Allocation Agreement.

"Covered Employee " means a Participant who, as of the date of grant, vesting and/or payout of an Award, as applicable, is one of the group of "covered employees," as defined in the regulations promulgated under Section 162(m) of the Code, or any successor statute.

"Current Award " means a Deferred Stock Bonus Award granted under the terms and conditions described in Section 8.2(c) hereof.

"Deferred Award " means a Deferred Stock Bonus Award granted under the terms and conditions described in Section 8.2(b) hereof.

"Deferred Stock " means an Award granted to a Participant as described in Article VIII herein.

"Deferred Stock Bonus Award " means a grant of a right to receive Shares on a deferred basis, pursuant to Section 8.2 hereof.

"Deferred Stock Agreement" means an Award granted to a Participant as described in Section 8.3 herein.

"Director " means any member of the Board.

"Disability " means a permanent and total disability, within the meaning of Code Section 22(e)(3), as determined by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by or satisfactory to the Committee, who are qualified to give professional medical advice.

"Distribution Agreement" means the Distribution Agreement as defined in the Allocation Agreement.

"Effective Date " has the meaning set forth in Section 1.3 hereof.

"Employee " means any individual who is, or will become, a full-time, active non-union employee of the Company.

"Engaging in Competition" means (i) engaging, individually or as an employee, consultant or owner (more than 5%) of any entity, in any business engaged in significant competition with any business operated by the Company, (ii) soliciting and hiring a key employee of the Company in another business, whether or not in significant competition with any business operated by the Company; or (iii) using or disclosing confidential Company information, in each case, without the approval of the Company.

Exchange Act " means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

"Fair Market Value " means the average of the highest and lowest quoted selling prices for the Shares on the relevant date, or (if there were no sales on such date) the average so computed on the nearest day before and the nearest day after the relevant date, as reported in the Wall Street Journal or a similar publication selected by the Committee.

"Host Marriott Corporation" means Host Marriott Corporation, a Delaware corporation for the period before the Contribution Date, and Host Marriott Corporation, a Maryland corporation, for the period beginning on and after the Contribution Date.

"Incentive Stock Option " or "ISO" means an Award of an option to purchase Shares, granted under Article VI hereof, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

"Insider" shall mean an individual who is, on the relevant date, an officer, Director or more than ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

"1998 Conversion Award" means an Award pursuant to Article XII to reflect the effect of the Distribution on outstanding awards which were held by the grantee immediately before the Distribution.

"Non-Employee Director" means a Director who is not an Employee of the Company.

"Nonqualified Stock Option " or "NQSO" means an Award of an option to purchase Shares, granted under Article VI herein and which is not intended to meet the requirements of Code Section 422.

"Operating Partnership" means Host Marriott, L.P., a Delaware limited partnership.

"Option " means an Award of an Incentive Stock Option or of a Nonqualified Stock Option.

"Option Price " means the price at which a Share may be purchased by a Participant pursuant to an Option.

"Other Cash Performance-Based Awards" means an Other Cash Performance-Based Award as described in Article X herein.

"Other Share-Based Award" means an Other Share-Based Award as described in Article X herein.

"Participant " means an Employee or former Employee of Host Marriott Corporation, the Operating Partnership or any Subsidiary to whom an Award granted under the Plan is outstanding, or any other individual to whom a 1998 Conversion Award granted under the Plan is outstanding.

"Performance-Based Exception means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

"Period of Restriction " means the period during which the transfer of Shares of Restricted Stock is limited (based on the passage of time, the achievement of performance objectives, or upon the

occurrence of other events as determined by the Committee, in its discretion, and the Shares are subject to a substantial risk of forfeiture, as provided in Article VII hereof.

"Person " has the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

"Plan " has the meaning set forth in Section 1.1 hereof.

"Restricted Stock " means an Award granted to a Participant pursuant to Article VII hereof.

"Shares " means shares of Host Marriott Corporation, par value $1.00 per share, for the period before the Contribution Date, and shares of Host Marriott Corporation, par value $0.01 per share, for the period beginning on or after the Contribution Date.

"Special Recognition Stock Award " means an award granted to a Participant pursuant to Article IX hereof.

"Subsidiary " means any corporation, partnership, joint venture or other entity other than the Operating Partnership in which the Company owns a majority of the equity interest by vote or by value or in which the Company has a majority capital or profits interest.

"Year of Service" means a period of twelve (12) consecutive calendar months during which an Employee was paid for 1200 or more hours of work for the Company.

ARTICLE IIIADMINISTRATION

3.1 The Committee . The Plan shall be administered by the Compensation Policy Committee of the Board, or by any other Committee appointed by the Board, the members of which shall be "Non-Employee Directors" within the meaning of Rule 16b-3 under the Exchange Act, or any successor provision. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board.

3.2 Authority of the Committee . Except as limited by law or by the Articles of Incorporation or Bylaws of Host Marriott Corporation, and subject to the provisions herein, the Committee shall have full power to select Employees who shall participate in the Plan, determine the sizes and types of Awards, determine the terms and conditions of Awards in a manner consistent with the Plan, construe the interpret the Plan and any agreement or instrument entered into under the Plan, establish, amend, or waive rules and regulations for the Plan's administration, and (subject to the provisions of Article XVI herein) amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan, except that Deferred Stock Bonus Awards authorized by Article VIII hereof shall be granted and administered by the Chief Executive Officer in the case of any recipients who are not Officers or Covered Employees. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. The Committee's determinations under the Plan (including without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the Award Agreements evidencing such Awards) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated. As permitted by law, the Committee may delegate its authority under the Plan to a Director or Employee.

3.3 Decisions Binding . All determinations and decisions made by the Committee or its designee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all parties.

3.4 Unanimous Consent in Lieu of Meeting . Except as otherwise required by law, a memorandum signed by all members of the Committee members shall constitute the act of the Committee without the necessity in such event to hold a meeting.

ARTICLE IV SHARES SUBJECT TO THE PLAN AND MAXIMUM AWARDS

4.1 Number of Shares. Subject to Sections 4.2 and 4.3 herein, (a) in the aggregate, no more than 44,442,911 shares of the Common Stock of the Host Marriott Corporation may be issued pursuant to Awards granted under the Plan, and (b) the maximum aggregate number of Shares that may be subject to any Awards (other than 1998 Conversion Awards) granted in any one fiscal year to any single Employee shall be two million (2,000,000). No more than 30% of the Shares available for Awards will be issued with respect to Awards other than Options.

4.2 Lapsed Awards . If any Award granted under this Plan is canceled, terminates, expires, or lapses for any reason, any Shares subject to such Award shall again be available for the grant of an Award under the Plan.

4.3 Adjustments in Authorized Shares. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, (a) such adjustment shall be made in the number and class of Shares which may be delivered under Section 4.1 and the Award limits set forth in Section 4.1 as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and (b) the Committee or the Board of Directors, Compensation Policy Committee or similar body of any other legal entity assuming the obligations of the Company hereunder, shall either (i) make appropriate provision for the protection of outstanding Awards by the substitution on an equitable basis of appropriate equity interest or awards similar to the Awards, provided that the substitution neither enlarges nor diminishes the value and rights under the Awards; or (ii) upon written notice to the Participants, provide that Awards will be exercised, distributed, canceled or exchanged for value pursuant to such terms and conditions (including the waiver of any existing terms or conditions) as shall be specified in the notice. Any adjustments of an ISO under this paragraph shall be made in such a manner so as not to constitute a "modification" within the meaning of Section 424(h)(3) of the Code.

4.4 Limitation on Participation. Notwithstanding any other provision to the contrary, effective as of the Contribution Date, an Employee shall not be eligible to participate in the Plan and shall cease to be a Participant, to the extent such Employee was a Participant immediately before the application of this Section 4.4 to such Employee, if the participation of such Employee would violate the ownership limits set forth in Article VIII of Host Marriott Corporation's Articles of Amendment and Restatement of Articles of Incorporation.

ARTICLE V ELIGIBILITY AND PARTICIPATION

5.1 Eligibility . Employees shall be eligible to participate in this Plan with respect to Awards specified in Articles VI through X. Persons eligible to receive 1998 Conversion Awards under the Allocation Agreement shall be eligible to participate in the Plan with respect to Awards specified in Article XII and shall be considered a Participant to the extent such Awards are outstanding.

5.2 Actual Participation by Employees . Subject to the provisions of the Plan, and with the exception that Bonus Awards (other than those to Officers and Covered Employees) shall be approved by the Chief Executive Officer, the Committee in its sole and absolute discretion may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee otherwise eligible under Section 5.1 shall have any right to be granted an Award under this Plan.

ARTICLE VI
STOCK OPTIONS

6.1 Grant of Options . Subject to the terms and provisions of the Plan, Options may be granted to Employees in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee. Options may include provisions for reload of Options exercised by the tender of Shares or the withholding of Shares with respect to the exercise of the Options.

6.2 Award Agreement. . Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Award Agreement shall also specify whether the Option is intended to be an ISO within the meaning of Code Section 422 or an NQSO whose grant is intended not to fall under the provisions of Code Section 422.

6.3 Option Price. The Option Price for each grant of an Option (other than an Option covered by a 1998 Conversion Award) under this Article VI shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

6.4 Duration of Options. Each Option granted under this Article VI shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the fifteenth (15Th) anniversary date of its grant.

6.5 Exercise of Options. Options granted under this Article VI shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Employee.

The ability of an Employee to exercise an Option is conditioned upon the Employee not committing any criminal offense or malicious tort relating to or against the Company.

6.6 Payment. Options granted under this Article VI shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either (a) in cash or its equivalent, or (b) if permitted in the governing Award Agreement, by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), or (c) if permitted in the governing Award Agreement, by a combination of (a) and (b).

The Committee also may allow cashless exercise as permitted under the Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

6.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article VI as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed or traded, and under any blue sky or state securities laws applicable to such Shares.

6.8 Termination of Employment or Leave of Absence. In the event that an Employee, during the Employee's lifetime has been on leave of absence for a period of greater than twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), or ceases to be an Employee of the Company or of any Subsidiary for any reason, including retirement, the portion of any Option which is not exercisable on the date on which the Employee ceased to be an Employee or has been on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be) shall expire on such date and any unexercised portion thereof which was otherwise exercisable on such date shall expire unless exercised within a period of three (3) months (one year in the case of a Participant who is Disabled) from such date, but in no event after the expiration of the term for which the Option was granted; provided, however, that in the case of an optionee of an NQSO who is an "Approved Retiree" (as herein defined), said optionee may exercise such Option until the sooner to occur of (i) the expiration of such Option in accordance with its original term, or (ii) the expiration of five years from the date of retirement. For purposes of the proviso to the preceding sentence:

(a) An "Approved Retiree" is any optionee who (A) retires from employment with the Company with the specific approval of the Committee on or after such date on which the optionee has completed 20 Years of Service or has attained age 55 and completed 10 Years of Service, and (B) has entered into and has not breached an agreement to refrain from Engaging in Competition in form and substance satisfactory to the Committee.

(b) Any time period during which an optionee may continue to exercise an Option within clause (ii) of said proviso shall count in determining compliance with any schedule established pursuant to Section 6.5 herein; and

(c) If an Approved Retiree is subsequently found by the Committee to have violated the provisions of the agreement to refrain from Engaging in Competition referred to in clause (a)(B) of this sentence, such Approved Retiree shall have ninety (90) days from the date of such finding within which to exercise any Options or portions thereof which are exercisable on such date, any Options or portions thereof which are not exercised within such ninety-day (90-day) period shall expire and any Options or portion thereof which are not exercisable on such date shall be canceled on such date.

In the event of the death of an optionee during the three-month period described above for exercise of an Option by a terminated optionee or one on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), the Option shall be exercisable by the optionee's personal representatives, heirs or legatees to the same extent and

during the same period that the optionee could have exercised the Option if the optionee had not died.

Notwithstanding anything in Section 6.5 to the contrary, in the event of the death of an optionee while an Employee or Approved Retiree of the Company or any Subsidiary, an outstanding Option held by such optionee upon death shall become fully vested upon death and shall be exercisable by the optionee's personal representatives, heirs or legatees at any time prior to the expiration of one (1) years from the date of death of the optionee, but in no event after the expiration of the term for which the Option was granted.

6.9 Nontransferability of Options

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) Nonqualified Stock Options. Except as otherwise provided in a Participant's Award Agreement, no NQSO granted under this Article VI may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, all NQSO's granted to a Participant under this Article VI shall be exercisable during his or her lifetime only by such Participant.

6.10 Rights as a Shareholder. The Participant shall have no rights as a shareholder with respect to any Shares covered by an Option until the date of issuance of a stock certificate or confirmation for such Shares. Except as otherwise expressly provided by the Board or the Committee, no adjustment shall be made for dividends or other rights for which the record date is prior to the date of issuance of a stock certificate or confirmation for such Shares.

ARTICLE VII
RESTRICTED STOCK

7.1 Grant of Restricted Stock . Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Employees in such amounts as the Committee shall determine.

7.2 Restricted Stock Agreement . Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

7.3 Transferability. Except as provided in this Article VII, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

7.4 Other Restrictions. The Committee shall impose such conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable, including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance objectives (Company-wide, business unit, and/or individual), continued employment with the Company over a prescribed period of time, time-based restrictions on vesting following the attainment of the performance objectives, and/or restrictions under applicable Federal or state securities laws.

The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

Except as otherwise provided in this Article VII, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

Distribution of Shares of Restricted Stock is conditioned upon the Participant not committing any criminal offense or malicious tort relating to or against the Company.

7.5 Voting Rights . During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

7.6 Dividends and Other Distributions . If determined by the Committee in its absolute discretion, during the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may be credited with regular cash dividends paid with respect to the underlying Shares while they are so held. Such dividends may be paid currently, accrued as contingent cash

obligations, or converted into additional shares of Restricted Stock, upon such terms as the Committee establishes.

The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Restricted Stock granted to a Covered Employee is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Restricted Stock, such that the dividends and/or the Restricted Stock maintain eligibility for the Performance-Based Exception.

7.7 Termination of Employment . In the event a Participant's employment with the Company is terminated because of the Participant's Disability or death during the Period of Restriction, the Period of Restriction shall end and the Participant's rights thereunder shall inure to the benefit or his or her Beneficiary.

In the event that the Participant's employment with the Company is terminated for any reason other than death or Disability during the Period of Restriction, such Participant's outstanding Restricted Shares shall be forfeited to the Company without payment, unless the Committee, in its sole discretion, determines otherwise.

ARTICLE VIII
DEFERRED STOCK

8.1 Award of Deferred Stock . Subject to the terms and provisions of the Plan, at any time and from time to time, (a) the Chief Executive Officer may grant Deferred Stock Bonus Awards or Deferred Stock Agreements to Employees who are not Officers or Covered Employees and (b) the Committee may grant Deferred Stock Bonus Awards or Deferred Stock Agreements to Officers or Covered Employees. The Chief Executive Officer or the Committee shall have complete discretion in determining the amount of Deferred Stock granted to each Employee (subject to Article IV herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards of Deferred Stock.

8.2 Deferred Stock Bonus Awards. Deferred Stock Bonus Awards may be granted as part of a management incentive program under which part of the annual performance bonus awarded to managers and other key employees is made in Deferred Stock. Subject to the terms of the Plan, Deferred Stock Bonus Awards shall have such terms and conditions as determined by (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (b) the Committee with respect to Officers or Covered Employees. As determined in the discretion of (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (b) the Committee with respect to Officers or Covered Employees, and subject to the terms of the Plan, Participants may elect to receive their Deferred Stock Bonus Award in the form of either a Current Award or a Deferred Award.

(A) Method of Election. Each Participant who is granted a Deferred Stock Bonus Award and selected by (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees and (b) the Committee with respect to Officers or Covered Employees, in their respective discretion, may elect, in writing, on a form to be furnished by the Company, to receive a Current Award or a Deferred Award. Notwithstanding the foregoing, any eligible Participant who does not elect to receive a Deferred Award within the time designated by the Committee shall be granted a Current Award.

(B) Deferred Award.

(i) Vesting. Deferred Stock granted in connection with a Deferred Award shall contingently vest, pro rata, in annual installments commencing one year after the date of the Deferred Stock Bonus Award and continuing on each January 2 thereafter until the expiration of a ten-year period from such commencement date. Notwithstanding the foregoing, all unvested Deferred Stock subject to a Deferred Award shall vest upon the Participant's (1) termination of employment following attainment of age 55 with ten (10) Years of Service, (2) termination of employment with retirement approval from the Committee and with twenty (20) Years of Service, (3) Disability, or (4) death. Subject to Section 4.3 herein, unvested Deferred Stock shall not continue to vest following termination of employment for any other reason.

(ii) Distribution of Shares. Vested Shares shall be distributed to the Participant in two (2) to ten (10) approximately equal annual installments, as elected by the Participant, or over such shorter period as determined by the Committee. Such distribution shall commence in the month of January following the date the Participant terminates employment; provided, however, that the Participant may elect to receive his or her vested Shares in a single distribution which shall take place in the month of January following his or her termination of employment.

All such elections made pursuant to this Section 8.2(B)(ii) shall be made at the time the Deferred Stock Bonus Award is granted, and shall be made, in writing, on a form prescribed by the Committee. Upon a Participant's death, all undistributed vested Deferred Stock will be distributed in one distribution as provided in Article XIII herein.

(C) Current Award.

(i) Distribution of Shares. Shares subject to a Current Award will be distributed in ten (10) consecutive, approximately equal, annual installments, commencing one (1) year after the date of the Deferred Stock Bonus Award. If the Participant dies prior to distribution of all Shares to which he or she is entitled, the remaining Shares will be distributed in one distribution as provided in Article XIII herein.

(ii) Forfeiture of Shares. Any undistributed Shares subject to a Current Award will be forfeited and the Deferred Stock Bonus Award relating thereto terminated, without payment, if the Participant's employment with the Company is terminated for any reason other than the Participant's (1) termination of employment at or beyond age 55 with 10 Years of Service, (2) retirement after 20 Years of Service with approval from the Committee, (3) Disability, or (4) death. Any undistributed Shares not subject to forfeiture shall continue to be distributed to the Participant under the distribution schedule which would have applied to those Shares if the Participant had not terminated employment, or over such shorter period as may be determined by the Committee.

(D) Conditions. Distribution of Shares under Current Awards and Deferred Awards is conditioned upon:

(i) the Participant not committing any criminal offense or malicious tort relating to or against the Company;

(ii) the Participant not Engaging in Competition; and

(iii) the Participant having provided the Committee with a current address where the Deferred Stock Bonus Award may be distributed.

If said conditions are not met, all undistributed Shares will be forfeited and the Deferred Stock Bonus Award terminated, without payment.

8.3 Deferred Stock Agreements . Deferred Stock Agreements represent Deferred Stock granted to a Participant subject to the following conditions:

(a) Vesting . Deferred Stock granted pursuant to this Section 8.3 shall contingently vest over a specified number of years, as determined by (a) the Chief Executive Officer with respect to Employees who are not Officers or Covered Employees or (b) the Committee with respect to Officers or Covered Employees. Notwithstanding the foregoing, all unvested Deferred Stock subject to a Deferred Stock Agreement shall immediately vest upon the Participant's: (1) termination of employment following attainment of age 55 with ten (10) Years of Service, (2) termination of employment with retirement approval from the Committee and with twenty (20) Years of Service, (3) termination of employment as a result of Disability, or (4) termination of employment as a result of death. Subject to Section 4.3 herein, unless otherwise provided in the Deferred Stock Agreement, if the Participant's employment with the Company shall be terminated for any other reason, all Deferred Stock which is not vested before such termination of employment shall be forfeited and the Deferred Stock Agreement terminated without payment.

(b) Distribution of Shares. Vested Deferred Stock granted pursuant to this Section 8.3 shall be distributed to the Participant in the form of Shares in the manner specified in the Deferred Stock Agreement, or over such shorter period as the Committee may direct. Such distribution shall commence on January 2 following the first to occur of the date the Participant (1) retires, (ii) becomes Disabled, or (iii) attains at least age 65 and is no longer employed by the Company. Upon the Participant's death or as soon as practicable thereafter, all unpaid vested Deferred Stock shall be distributed in the form of Shares, in one distribution, as provided in Article XIII.

(c) Conditions . Distribution of Shares subject to Deferred Stock Agreements is conditioned upon:

(i) the Participant not Engaging in Competition;

(ii) the Participant not committing any criminal offense or malicious tort relating to or against the Company; and

(iii) the Participant having provided the Committee with a current address where the Deferred Stock may be distributed.

If such conditions are not met, all undistributed Deferred Stock will be forfeited and the Deferred Stock Agreement terminated without payment.

8.4 Assignment . A Participant's rights under a Deferred Stock Agreement or Deferred Stock Bonus Award may not, without the written consent of the Company, be assigned or otherwise transferred, nor shall they be subject to any right or claim of a Participant's creditors, provided that the Company may offset any amounts owing to or guaranteed by the Company, or owing to any credit union related to the Company against the value of Deferred Stock and underlying Shares to be distributed under Deferred Stock Agreements and Deferred Stock Bonus Awards.

8.5 Lump Sum Payments . Notwithstanding anything in the Plan to the contrary, any Participant entitled upon termination of employment to receive a distribution pursuant to this Article VIII, the amount of which distribution has a total Fair Market Value at the time of such termination of $3,000.00 or less, shall receive such distribution in one lump sum as soon as possible following termination of employment.

8.6 Rights as a Shareholder. The Participant shall have no rights as a shareholder with respect to Deferred Stock until the date of issuance of a stock certificate or confirmation for such Shares. Except as otherwise expressly provided by the Board or the Committee, no adjustment shall be made for dividends or other rights for which the record date is prior to the date of issuance of a stock certificate or confirmation for such Shares.

ARTICLE IX
SPECIAL RECOGNITION STOCK AWARDS

Subject to the terms and provisions of the Plan, the Committee or its designee, at any time and from time to time, may grant Special Recognition Stock Awards to Employees in such amounts and upon such conditions as the Committee or its designee shall determine.

ARTICLE X
OTHER AWARDS

10.1 Grant of Other Share-Based Awards . The Committee may grant Other Share-Based Awards to Participants in such number, and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

10.2 Terms of Other Share-Based Awards . Other Share-Based Awards shall contain such terms and conditions as the Committee may from time to time specify and may be denominated in cash, in Shares, in Share-equivalent units, in Share appreciation units, in securities or debentures convertible into Shares or in a combination of the foregoing and may be paid in cash or in Shares, all as determined by the Committee. Other Share-Based Awards may be issued alone or in tandem with other Awards granted to Employees.

10.3 Other Share-Based Award Agreement. Each Other Share-Based Awards shall be evidenced by an Award Agreement that shall specify such terms and conditions as the Committee may determine.

10.4 Other Cash Performance-Based Awards. The Committee may grant Other Cash Performance-Based Awards based on performance measures set forth in Article XI not based on Shares upon such terms and at any time and from time to time as shall be determined by the Committee. Each such Other Cash Performance-Based Award shall be evidenced by an award agreement that shall specify such terms and conditions as the Committee shall determine. An Other Cash Performance-Based Award not based upon Shares shall not decrease the number of Shares under Article IV which may be issued pursuant to other Awards. No individual shall be eligible to receive a payment with respect to cash performance-based awards in excess of $4,000,000 in any calendar year. Other Cash Performance-Based Awards may relate to annual bonus or long-term performance awards.

ARTICLE XI
PERFORMANCE MEASURES FOR AWARDS

11.1 Performance Measures. Unless and until the Committee proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Article XI, the attainment of which may determine the degree of payout and/or vesting with respect to Awards which are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used for purposes of such Awards shall be chosen by the Committee from among the following alternatives:

(a) Consolidated cash flows,

(b) Consolidated financial reported earnings,

(c) Consolidated economic earnings,

(d) Earnings per share,

(e) Earnings as a percentage of average capital,

(f) Earnings as a multiple of interest expense,

(g) Business unit financial reported earnings,

(h) Business unit economic earnings,

(i) Business unit cash flows,

(j) Appreciation in the Fair Market Value of Shares either alone or as measured against the performance of the stocks of a group of companies approved by the Committee,

(k) Total capital invested in assets, and

(l) Capital invested in assets subject to the strategic alliance with Marriott International, Inc.

11.2 Adjustments. The Committee shall have the discretion to adjust the determinations of the degree of attainment of preestablished performance objectives, provided, however, that Awards which are designed to qualify for the Performance-Based Exception, and which are held by Covered Employees, may not be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward.

11.3 Committee Discretion. In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which do not qualify for the Performance-Based Awards or to make modifications that would not satisfy the requirements to qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Section 162(m) of the Code.

ARTICLE XII
CONVERSION AWARDS

All 1998 Conversion Awards which, under the Allocation Agreement, are to be denominated in shares of Host Marriott Corporation, shall be issued under the Host REIT Plan as provided in the Allocation Agreement. The Committee shall administer all such 1998 Conversion Awards under the Host REIT Plan, giving service credit to the grantee of each such 1998 Conversion Award to the extent required under the Allocation Agreement. All 1998 Conversion Awards shall be subject to substantially similar terms and conditions as provided in the holder's outstanding awards prior to the Contribution Date.

ARTICLE XIII
BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of the Participant's death before the Participant has received any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE XIV
DEFERRALS

The Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of an exercise of an Option, or the payment of or the lapse or waiver of restrictions with respect to any other Award. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

ARTICLE XV
RIGHTS OF PARTICIPANTS

15.1 Employment or Service. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, nor confer upon any Participant any right to continue in the employ or service of the Company.

15.2 Participation. No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

ARTICLE XVI
AMENDMENT, MODIFICATION AND TERMINATION

16.1 Amendment, Modification, and Termination. The Committee may terminate, amend or modify the Plan. Termination, amendment or modification of the Plan may be in response to changes in the Code, the Exchange Act or national securities exchange regulations, or for other reasons deemed appropriate by the Committee. However, without the requisite approval of the shareholders of the Company, no such termination, amendment or modification may:

(a) Materially increase the total number of Shares which may be issued under this Plan, or the total number of Shares for which Options may be granted under this Plan, except as provided in Section 4.3 hereof; or

(b) Materially modify the requirements as to eligibility for participation in the Plan; or

(c) Extend the maximum period after the date of grant during which Options may be exercised; or

(d) Change the provisions of the Plan regarding Option Price or the exercise of Options, except as provided in Section 4.3 or Article VI hereof or modify the Plan in a manner inconsistent with Rule 16b-3 under the Exchange Act, Sections 422-424 of the Code or Section 162(m) of the Code.

The termination or any modification or amendment of the Plan shall not, without the consent of the Participant, affect a Participant's rights under an Award previously granted to the Participant; provided, however, that in the event of a transaction described in Section 4.3 hereof, the authority of the Committee (or, if another legal entity assumes the obligations of the Company hereunder, of the board of directors, compensation committee or similar body of such other legal entity, as applicable) in taking the actions permitted or required by Section 4.3 hereof shall not be eliminated or diminished in any way by this sentence. With the consent of the affected Participant, the Committee may amend an outstanding Award agreement in a manner consistent with the Plan.

16.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to the restriction set forth in Article XI herein on the exercise of upward discretion with respect to Awards which have been designed to comply with the Performance-Based Exception, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

16.3 Awards Previously Granted. No termination, amendment, or modification of the Plan or any Award shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

16.4 Compliance with Code Section 162(m). At all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m), provided, however, that in the event the Committee determines that such compliance is not desired with respect to any Award or Awards available for grant under the Plan, then compliance with Code Section162(m) will not be required. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Awards available under the Plan, the Committee may, subject to this Article XVI, make any adjustments it deems appropriate.

16.5 Substitution of Awards in Mergers and Acquisitions. Awards may be granted under the Plan from time to time in substitution for awards held by employees or directors of entities who become or are about to become employees or directors of the Company or a Subsidiary as a result of a merger, consolidation or other acquisition of the employing entity or the acquisition by the Company or a Subsidiary of the assets or stock of the employing entity. The terms and conditions of any substitute awards so granted may vary from the terms and conditions set forth herein to the extent that the Committee deems appropriate at the time of grant to conform the substitute awards to the provisions of the awards for which they are substituted.

ARTICLE XVII
WITHHOLDING

17.1 Tax Withholding. The Company shall have the power and the right to deduct from any amount otherwise due to the Participant, or to withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

17.2 Share Withholding. With respect to withholding required in connection with any Award, the Company may require, or the Committee may permit a Participant to elect, that the withholding requirement be satisfied, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be withheld on the transaction. Any election by a Participant shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

ARTICLE XVIII
INDEMNIFICATION

Each Person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by Host Marriott Corporation, the Operating Partnership or any Subsidiary against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the approval or Host Marriott Corporation, the Operating Partnership or any Subsidiary, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give Host Marriott Corporation, the Operating Partnership or any Subsidiary an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend the same on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such Persons may be entitled under Host Marriott Corporation's Articles of Amendment and Restatement of Articles of Incorporation, as a matter of law or otherwise, or any power that Host Marriott Corporation, the Operating Partnership or any Subsidiary may have to indemnify them or hold them harmless.

ARTICLE XIX
SUCCESSORS

All obligations of Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively, under the Plan, with respect to Awards granted hereunder, shall be binding on any successors to Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of Host Marriott Corporation, the Operating Partnership or any Subsidiary, respectively.

ARTICLE XX
LEGAL CONSTRUCTION

20.1 Gender and Number . Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

20.2 Severability . In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

20.3 Requirements of Law . The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

20.4 Securities Law Compliance. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

20.5 Governing Law . To the extent not preempted or otherwise governed by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Maryland without regard to the State of Maryland's choice of law rules.

PROPERTY_____

Exhibit 10.24

FORM

AMENDED AND RESTATED LEASE AGREEMENT

DATED AS OF JANUARY __, 2001

BY AND BETWEEN

AS LANDLORD,

AND

AS TENANT

TABLE OF CONTENTS

EXHIBITS

EXHIBIT A	The Land
EXHIBIT B	[Intentionally Omitted.]
EXHIBIT C	[Intentionally Omitted.]
EXHIBIT D	[Intentionally Omitted.]
EXHIBIT E	Working Capital Note and Agreement

SCHEDULES

Schedule 2.2(a)(vi)	Excluded Leases
Schedule 3.1.1	Minimum Rent
Schedule 3.1.2	Revenue Percentage and Break Points
Schedule 3.1.3(b)	Items of Gross Revenues
Schedule 3.1.5(e)	Prepaid Expenses
Schedule 5.1.1	Existing Conditions Relating to Hazardous Materials
Schedule 17.2(f)	Period Report Format
Schedule 20.3	Superior Mortgagee(s) and Superior Landlord(s)
Schedule 22.2	Provisions Relating to Excess FF&E
Schedule 22.2-A	Form of Excess FF&E Lease
Schedule 23.8	Deemed Consent or Approval

AMENDED AND RESTATED LEASE AGREEMENT

THIS AMENDED AND RESTATED LEASE AGREEMENT (this "Lease") is entered into as of the __ day of January, 2001, by and between _____, a Delaware limited liability company, having its principal office at 10400 Fernwood Road, Bethesda, Maryland 20817 ("Landlord"), and _____, a Delaware limited liability company, having its principal office at 10400 Fernwood Road, Bethesda, Maryland 20817 ("Tenant").

WITNESSETH:

WHEREAS, Landlord owns [fee simple/leasehold] title to the Leased Property (this and other capitalized terms used and not otherwise defined herein having the meanings ascribed to such terms in Article 1);

WHEREAS, Landlord leased the Leased Property to Tenant and Tenant leased the Leased Property from Landlord pursuant to a Lease Agreement dated as of December 31, 1998, as amended (the "Original Lease"), all subject to and upon the terms and conditions set forth in the Original Lease;

WHEREAS, as a condition to entering into the Original Lease, Landlord and Tenant entered into that "Consent and Assignment" (as that term is defined hereafter), and agreed that Tenant would assume certain obligations of Landlord under the "Assigned Agreements" (as that term is defined hereafter); and

WHEREAS, Landlord and Tenant desire to amend and restate the Original Lease in its entirety to reflect certain changes that Landlord and Tenant have agreed shall be mutually beneficial to both parties.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

ARTICLE 1
DEFINITIONS

For all purposes of this Lease, except as otherwise expressly provided or unless the context otherwise requires, (i) the terms defined in this Article shall have the meanings assigned to them in this Article and include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with GAAP, (iii) all references in this Lease to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Lease, and (iv) the words "herein," "hereof," "hereunder" and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or other subdivision.

1.1. "AAA" shall have the meaning given such term in Section 15.1.

1.2. "Accounting Period" shall mean (i) for so long as the Management Agreement is in effect each of the four (4) week accounting periods that are used in Manager's accounting system, except that an Accounting Period may occasionally contain five (5) weeks when necessary to conform Manager's accounting system to the calendar and (ii) during any period when the Management Agreement is not in effect, each calendar month during the Term.

1.3. "Accounting Period Statement" shall have the meaning given such term in Section 17.2(d).

1.4. "Additional Charges" shall have the meaning given such term in Section 3.1.5.

1.5. "Adverse Party" shall mean any Person (i) who is engaged in the Hotel Business or is an Affiliate (other than an Affiliate who is a lessee under a lease of a hotel from a real estate investment trust or other passive owner which is managed on behalf of such Affiliate by an unaffiliated third party manager) of any Person engaged in the Hotel Business, (ii) who is, or is an Affiliate of, a Person who has been convicted of, or has pleaded nolo contendere to, a felony, (iii) whose ownership of a direct or indirect interest in Tenant would violate the Management Agreement or (iv) who, prior to the effective time of a Change in Control, fails to enter into a written agreement reasonably satisfactory in form and substance to Host REIT (1) to the effect that neither (A) such Person nor (B) any Person who would be considered to constructively own either any interest in such Person or any interest in Tenant owned directly or indirectly by such Person (as determined under Section 318(a) of the Code, as modified by Section 856(d) of the Code) (referred to as "Constructive Ownership") would own (or have Constructive Ownership of) any interest in Host REIT or Host O.P. that would cause either Host REIT or Host O.P. to be considered to Constructively Own any interest in either Tenant or any other tenant of either Host REIT or Host O.P. that is described in Section 856(d)(2)(B) of the Code for purposes of applying either Section 856(c) of the Code or Section 7704(d) of the Code, or any similar or successor provisions thereto and (2) with respect to such other matters reasonably required to protect the status of Host REIT as a "real estate investment trust" for federal income tax purposes.

1.6. "Affiliate" shall mean any individual or entity directly or indirectly through one or more intermediaries controlling, controlled by or under common control with a party. The term "control," as used in the immediately preceding sentence, means the possession, direct or indirect, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding the foregoing, Manager shall not be deemed an Affiliate of either Landlord or Tenant.

1.7. "Alterations" shall have the meaning given such term in Section 6.4.

1.8. "Annual Adjustment" shall mean (a) with respect to Minimum Rent, the product of (i) the amount of the Minimum Rent then in effect and (ii) ____ percent (____%) of any Percentage Increase in CPI; (b) with respect to each of the Annual Room Revenues First Break Point, the Annual Food and Beverages Sales First Break Point, and

the Annual Other Income Break Point, the product of (i) the amount of each such break point then in effect and (ii) the weighted average resulting from the sum of _____ percent (_____%) of any Percentage Increase in CPI plus ____ percent (___%) of any Percentage Increase in the Labor Index; and (c) with respect to the Annual Food and Beverages Sales Second Break Point and the Annual Room Revenues Second Break Point, the product of (i) the amount of each such break point then in effect and (ii) _____% of the figure calculated in subsection (b)(ii) above.

1.9. "Annual Budget" shall have the meaning given such term in Section 17.3.

1.10. "Annual Food and Beverages Sales First Break Point" shall have the meaning given such term in Section 3.1.2(b)(3).

1.11. "Annual Food and Beverages Sales Second Break Point" shall have the meaning given such term in Section 3.1.2(b)(3).

1.12. "Annual Operating Statement" shall have the meaning given such term in Section 17.2(c).

1.13. "Annual Other Income Break Point" shall have the meaning given such term in Section 3.1.2(b)(3).

1.14. "Annual Room Revenues First Break Point" shall have the meaning given such term in Section 3.1.2(b)(3).

1.15. "Annual Room Revenues Second Break Point" shall have the meaning given such term in Section 3.1.2(b)(3).

1.16. "Applicable Expected Life" shall have the meaning given such term in paragraph (e)(i) of Schedule 22.2.

1.17. "Asset Management Agreement" shall mean that certain agreement dated as of even date herewith as amended or restated from time to time, between TRS and Host O.P. relating to the provision of asset management services by or on behalf of TRS. with respect to the Facility and the hotel facilities covered by the Other Leases.

1.18. "Assigned Agreements" shall have the meaning given such term in Section 2.2(a).

1.19. "Award" shall mean all compensation, sums or other value awarded, paid or received by virtue of a total or partial Condemnation of the Leased Property (after deduction of all reasonable legal fees and other reasonable costs and expenses, including, without limitation, expert witness fees, incurred by Landlord in connection with obtaining any such award).

1.20. "Bankruptcy Code" shall have the meaning given such term in Section 16.1.

1.21. "Budget Spread" shall have the meaning given such term in Section 17.3.

1.22. "Business Day" shall mean any day other than Saturday, Sunday, or any other day on which banking institutions in the State are authorized by law or executive action to close.

1.23. "Capital Budget" shall have the meaning given such term in Section 17.3.

1.24. "Capital Expenditure" shall mean any expenditure for capital repairs, alterations, improvements, renewals or replacements to the structure or exterior facade of the Facility, or to the mechanical, electrical, heating, ventilating, air conditioning, plumbing, or vertical transportation elements of the Facility (together with all other repair and maintenance expenditures which are classified as capital expenditures under GAAP), or, during any period when the Management Agreement is in effect, to the extent in conflict with the foregoing, the definition or description of "capital expenditures" (or other expenditures of a capital nature) used in the Management Agreement. To the extent applicable as used herein, Capital Expenditure shall also refer to the actual capital repair, alteration, improvement, renewal or replacement to which the Capital Expenditure relates.

1.25. "Capital Portion" shall have the meaning given such term in Section 17.3.

1.26. "Capitalized Interest" shall mean interest that is capitalized and is not counted as interest expense in accordance with GAAP.

1.27. "Capitalized Lease Obligations" of any Person shall mean all rental obligations which, under GAAP, are or will be required to be capitalized on the books of such Person, in each case taken at the amount thereof accounted for as indebtedness in accordance with such principles.

1.28. "Case Goods" shall mean furniture and furnishings used in the Facility, including, without limitation, chairs, beds, chests, headboards, desks, lamps, tables, television sets, mirrors, pictures, wall decorations and similar items.

1.29. "Casualty" shall have the meaning given such term in Section 10.1.

1.30. [Intentionally Omitted.]

1.31. [Intentionally Omitted.]

1.32. "Change in Control" shall mean the:

(i) acquisition (after a registered offering of shares, by a merger contemplated by subparagraph (ii) below or otherwise) by any Person, or two or more Persons acting in concert, in a single or series of transactions (whether or not related), of:

(a) with respect to Tenant or TRS, beneficial ownership (within the meaning of Rule 13d-3 of the SEC) of, or rights (including conversion rights), options or warrants to acquire (whether absolute or conditional), all or any portion of the outstanding voting or economic interests in Tenant or TRS (other than voting rights held by any non-equity member of Tenant as set forth in the Limited Liability Company Operating Agreement of Tenant as in effect on the date hereof); or

(b) [Intentionally Omitted.]

(ii) the merger or consolidation of Tenant or TRS with or into any other Person (other than any one or more Qualified Affiliates); or

(iii) any one or a series of related sales or conveyances to any Person (other than any one or more Qualified Affiliates) of all or substantially all of the assets of Tenant; or

(iv) [Intentionally Omitted.]

Notwithstanding the foregoing, in no event shall (i) the acquisition by Host O.P. or an Affiliate of Host O.P., or a transfer between Host O.P. and an Affiliate of Host O.P. or between Affiliates of Host O.P. of all or part of the direct or indirect legal or beneficial ownership interest in Tenant or TRS or of rights (including conversion rights), options or warrants to acquire (whether absolute or conditional) any such ownership interest be deemed a Change in Control, so long as such acquisition or transfer is to a Qualified Affiliate, or (ii) any change in the direct or indirect legal or beneficial ownership of, or any acquisition or exercise by any Person of any rights (including conversion rights), options or warrants to acquire (whether absolute or conditional) any direct or indirect legal or beneficial ownership interest in, Host O.P. or Host REIT be deemed a Change in Control.

1.33. "Claims" shall have the meaning given such term in Article 8.

1.34. "Code" shall mean the Internal Revenue Code of 1986 and, to the extent applicable, the Treasury Regulations promulgated thereunder, each as from time to time amended.

1.35. "Commencement Date" shall mean 11:59 p.m. on December 31, 1998.

1.36. "Comparable Lease" shall have the meaning given such term in Section 24.1(b).

1.37. "Condemnation" shall mean, with respect to the Leased Property, (a) the exercise of any governmental power with respect to all or part of the Leased Property, whether by legal proceedings or otherwise, by a Condemnor of its power of condemnation, (b) a voluntary sale or transfer of all or part of the Leased Property by Landlord to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending, or (c) a taking or voluntary conveyance of all or part of the Leased Property, or any interest therein, or right accruing thereto or use thereof, as the result or in settlement of any Condemnation or other eminent domain proceeding affecting the Leased Property, whether or not the same shall have actually been commenced.

1.38. "Condemnor" shall mean any public or quasi-public authority, or private corporation or individual, having the power of Condemnation.

1.39. "Consent and Assignment" shall have the meaning given such term in Section 21.3.1.

1.40. [Intentionally Omitted.]

1.41. [Intentionally Omitted.]

1.42. [Intentionally Omitted.]

1.43. [Intentionally Omitted.]

1.44. "Constructive Ownership" shall have the meaning given such term in Section 1.5.

1.45. "Consumer Price Index" shall mean the "Consumer Price Index" published by the Bureau of Labor Statistics of the United States Department of Labor, All Items for Urban Wage Earners and Clerical Workers (1982-1984 = 100).

1.46. "Continuing Obligations" shall have the meaning given such term in Section 21.3.1.

1.47. "Contractor" shall have the meaning given such term in Section 9.10.

1.48. "Contractor's Insurance Certificate" shall have the meaning given such term in Section 9.10.

1.49. "Contractor's Liability Coverage" shall have the meaning given such term in Section 9.10.

1.50. "Cumulative Portion" shall have the meaning given such term in Section 3.1.2(b)(1).

1.51. "Default" shall mean any event, act or condition that with the giving of notice or lapse of time, or both, would constitute an Event of Default.

1.52. "Emergency Situations" shall mean fire, any other Casualty, or any other events, circumstances or conditions that threaten the safety or physical well-being of the Facility's guests or employees or that involve the risk of material property damage or loss.

1.53. "Entity" shall mean any corporation, general or limited partnership, limited liability company or partnership, stock company or association, joint venture, association, company, trust, bank, trust company, land trust, business trust, cooperative, any government or agency or political subdivision thereof or any other entity.

1.54. "Environment" shall mean soil, surface water, groundwater, land, stream, sediment, surface or subsurface strata, ambient air, physical structures and equipment, and where radon gas is present, the interior air of buildings.

1.55. "Environmental Laws" shall mean any federal, state or local law, rule or regulation (both present and future) dealing with the use, generation, treatment, storage, disposal, or abatement of Hazardous Materials, including, but not limited to, (i) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., as amended and (ii) the regulations promulgated thereunder, from time to time.

1.56. "Environmental Liabilities" shall have the meaning given such term in Section 4.3.2.

1.57. "Environmental Notice" shall have the meaning given such term in Section 4.3.1.

1.58. "Environmental Obligation" shall have the meaning given such term in Section 4.3.1.

1.59. "Event of Default" shall have the meaning given such term in Section 12.1.

1.60. "Excess FF&E" shall have the meaning given such term in paragraph (b) of Schedule 22.2.

1.61. "Excess FF&E Cost" shall have the meaning given such term in paragraph (e) of Schedule 22.2.

1.62. "Excess FF&E Lease" shall have the meaning given such term in paragraph (b) of Schedule 22.2.

1.63. "Excess FF&E Leasehold Interest" shall have the meaning given such term in paragraph (h) of Schedule 22.2.

1.64. "Excess FF&E Leasehold Interest Transfer" shall have the meaning given such term in paragraph (h) of Schedule 22.2.

1.65. "Excess FF&E Leasehold Interest Transfer Price" shall have the meaning given such term in paragraph (h) of Schedule 22.2.

1.66. "Excess FF&E Notice" shall have the meaning given such term in paragraph (b) of Schedule 22.2.

1.67. "Excess FF&E Reimbursement Amount" shall have the meaning given such term in paragraph (i) of Schedule 22.2.

1.68. "Excess FF&E Repurchase" shall have the meaning given such term in paragraph (g) of Schedule 22.2.

1.69. "Excess FF&E Repurchase Price" shall have the meaning given such term in paragraph (g) of Schedule 22.2.

1.70. "Excess FF&E Value" shall have the meaning given such term in paragraph (e) of Schedule 22.2.

1.71. "Existing Condition" shall mean any physical condition existing at the Leased Property as of the Commencement Date.

1.72. "Facility" shall have the meaning given such term in Section 2.1(b).

1.73. "Facility Mortgage" shall mean, with respect to the Leased Property, any Lien placed by Landlord upon the Leased Property in accordance with Article 20.

1.74. "Facility Mortgagee" shall mean the holder of a Facility Mortgage.

1.75. "Facility Mortgagee Agreement" shall have the meaning given such term in Section 21.4.

1.76. "Facility Trade Name" shall mean, with respect to the Facility, any name under which Tenant has conducted the business of operating the Facility at any time during the Term.

1.77. "Fair Market Rental" shall mean, with respect to the Leased Property, the rental which a willing tenant not compelled to rent would pay a willing landlord not compelled to lease for the use and occupancy of the Leased Property on the terms and conditions of this Lease for the term in question (taking into account the Management Agreement), assuming Tenant is not in default hereunder and determined by agreement between Landlord and Tenant or, failing agreement, in accordance with the appraisal procedures set forth in Article 19.

1.78. "Fair Market Value" shall be deemed to equal, with respect to the leasehold estate hereunder, the present value of the annual income to Tenant for the remainder of the Term, determined in accordance with Section 24.1(b).

1.79. "FF&E" shall mean furniture, furnishings, fixtures, Soft Goods, Case Goods, signage and equipment at the Facility (including, without limitation, facsimile machines, communication systems, audio visual equipment, and all computer and other equipment needed for the reservation system and the property management system, and all other electronic systems needed for the Facility, from time to time, as well as similar systems based on other technologies which may be developed in the future), or, during any period when the Management Agreement is in effect, to the extent in conflict with the foregoing, "FF&E" as defined in the Management Agreement; provided, however, that FF&E shall not include Tenant's Personal Property.

1.80. "FF&E Adjustment" shall have the meaning given such term in paragraph (e) of Schedule 22.2.

1.81. "FF&E Estimate" shall have the meaning given such term in Section 17.3(c).

1.82. "FF&E Limitation" shall have the meaning given such term in paragraph (a) of Schedule 22.2.

1.83. "FF&E Reserve" shall have the meaning given such term in Section 4.4.

1.84. "Final Working Capital" shall have the meaning given such term in Section 4.5.

1.85. [Intentionally Omitted.]

1.86. "First Class Operating Standards" shall mean both the operational standards (for example, staffing, amenities offered to guests, advertising, etc.) and the physical standards (for example, the quality, condition, utility and age of the personal property, etc.) of comparable full-service hotels in the hotel system of which the Facility is a part (e.g., the Marriott hotel system or the Ritz-Carlton hotel system), as such operational and physical standards may change from time to time (provided, however, that First Class Operating Standards shall in no event be lower than the operational and physical standards, as of the date in question, of comparable "quality segment" (as such term was being used as of the effective date of the Management Agreement) full-service hotels in other full-service hotel systems), or, during any period when the Management Agreement is in effect, to the extent in conflict with the foregoing, the operating standards required pursuant to the Management Agreement.

1.87. "First Tier Food and Beverages Sales Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.88. "First Tier Other Income Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.89. "First Tier Room Revenue Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.90. "First Year FF&E Adjustment" shall have the meaning given such term in paragraph (e)(i) of Schedule 22.2.

1.91. "Fiscal Year" shall mean the fiscal year used by Manager, which now ends at midnight on the Friday closest to December 31 in each calendar year and begins on the Saturday immediately following said Friday. If the fiscal year used by Manager is changed in the future by Manager or if the Management Agreement is no longer in effect, appropriate adjustment to this Lease's reporting and accounting procedures shall be made; provided, however, that no such change or adjustment shall alter the Term of this Lease, or in any way reduce the amount of Rent or other payments due to or by Landlord hereunder, or otherwise adversely affect Landlord's or Tenant's rights or obligations under this Lease.

1.92. "Fixed Asset Supplies" shall mean supply items included within "Property and Equipment" under the Uniform System, including linen, china, glassware, silver, uniforms and similar items.

1.93. "Fixtures" shall have the meaning given such term in Section 2.1(d).

1.94. "Food and Beverages Sales" shall mean (a) gross revenue from the sale of food and beverages that are prepared at the Facility and sold or delivered on or off the Facility by or on behalf of Tenant (including, without limitation, revenues from mini-bars), whether for cash or for credit, including in respect of guest rooms, banquet rooms, meeting rooms and other similar rooms and (b) gross revenue from the rental of banquet, meeting and other similar rooms. Food and Beverages Sales shall be determined in a manner consistent with the Uniform System. Food and Beverages Sales shall not include the following:

(i) sales by Tenant's subtenants, licensees and concessionaires, the rent, license fees or concession payments from which are included in Gross Revenues, and any rent, license fees, concession payments or other amounts paid to Tenant by any such subtenants, licensees and concessionaires;

(ii) vending machine sales;

(iii) any gratuities or service charges added to a customer's bill or statement in lieu of a gratuity that is paid directly to Facility employees, to the extent actually paid to such employees;

(iv) credits, rebates or refunds; or

(v) sales taxes or taxes of any other kind imposed on the sale of food or beverages.

1.95. "GAAP" shall mean generally accepted accounting principles consistently applied.

1.96. "Government Agencies" shall mean any court, agency, authority, board (including, without limitation, environmental protection, planning and zoning), bureau, commission, department, office or instrumentality of any nature whatsoever of any

governmental unit of the United States, the State, any county, or any political subdivision of any of the foregoing, whether now or hereafter in existence, having jurisdiction over Tenant or the Leased Property or any portion thereof.

1.97. "Gross Revenues" shall mean Room Revenues, Food and Beverages Sales, and Other Income, and all revenues and receipts of every kind derived from operating the Facility and parts thereof, including, but not limited to:

(i) revenues and receipts from both cash and credit transactions, before commissions and discounts for prompt or cash payments, from rental of stores, offices, meeting, exhibit or sales space of every kind;

(ii) license, lease and concession fees and rentals (not including gross receipts of the licensees, lessees and concessionaires under licenses, leases and concessionaire agreements);

(iii) revenues and receipts from vending machines;

(iv) health club membership fees;

(v) sales of merchandise (other than proceeds from the sale of FF&E no longer necessary to the operation of the Facility);

(vi) service charges, to the extent not paid to the employees at the Facility as, or in lieu of, gratuities; and

(vii) proceeds, if any, from business interruption or other loss of income insurance;

provided, however, that Gross Revenues shall not include the following:

(i) banquet service charges to the extent actually paid to employees;

(ii) gratuities to Facility employees to the extent actually paid to employees;

(iii) federal, state or municipal excise, sales, use or similar taxes collected directly from patrons or guests or included as part of the sales price of any goods or services;

(iv) insurance proceeds (other than proceeds from business interruption or other loss of income insurance);

(v) condemnation proceeds (other than for a temporary taking);

(vi) any proceeds from any sale of the Facility or from the refinancing of any debt encumbering the Facility;

(vii) proceeds from the disposition of FF&E no longer necessary for the operation of the Facility; or

(viii) interest which accrues on amounts deposited in either the FF&E Reserve or any escrow accounts that are established for real estate and personal property taxes, levies, assessments and similar charges in accordance with the terms of the Management Agreement.

1.98. [Intentionally Omitted.]

1.99. [Intentionally Omitted.]

1.100. "Hazardous Materials" shall mean any substance or material containing one or more of any of the following: "hazardous material," "hazardous waste," "regulated substance," "petroleum," "pollutant," "contaminant," or "asbestos," as such terms are defined in any applicable Environmental Law, in such concentration(s) or amount(s) as may impose cleanup, removal, monitoring or other responsibility under any applicable Environmental Law, or which may present a significant risk of harm to guests, invitees or employees of the Facility.

1.101. "Host O.P." shall mean Host Marriott, L.P., a Delaware limited partnership and the operating partnership of Host REIT.

1.102. "Host REIT" shall mean either Host Marriott Corporation, a Delaware corporation, or Host Marriott Corporation, a Maryland corporation, which is intended to be the successor by merger to Host Marriott Corporation, a Delaware corporation, or their successors or assigns.

1.102A. "Host Subsidiary" shall mean (i) any Person (other than a Subsidiary of Host O.P.) in which Host O.P. owns, directly or indirectly, at least 90% of the economic interest, or (ii) any Person which is or may become, subsequent to the date on which this Lease is entered into, an Affiliate or Subsidiary of Host O.P.

1.103. "Hotel Business" means the business of owning, developing, constructing, leasing, operating, managing or franchising, either directly or through a contractual arrangement with a third party, hotels having, in the aggregate, five thousand (5,000) or more rooms, but excluding hotels leased, as a lessee, from a real estate investment trust or other passive owner and operated on behalf of such lessee by an unaffiliated third party manager.

1.104. "Impositions" shall mean, collectively, all taxes (including, without limitation, all ad valorem, sales and use, single business, gross receipts, transaction, privilege, rent or similar taxes as the same relate to or are imposed upon Tenant or the business conducted upon the Leased Property) not included in Landlord Obligations, water, sewer or other rents and charges, excises, tax levies, fees (including, without limitation, license, permit, inspection, authorization and similar fees) and all other governmental charges not included in Landlord Obligations, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character in respect of the

Leased Property or the business conducted thereon by Tenant (including all interest and penalties thereon due to any failure in payment by Tenant), which at any time during or in respect of the Term hereof may be assessed or imposed on or in respect of or be a lien upon (a) Landlord's interest in the Leased Property; (b) the Leased Property, any part thereof, any rent therefrom, or any estate, right, title, or interest therein; or (c) any occupancy, operation, use or possession of, or sales from, or activity conducted on or in connection with the Leased Property or the leasing or use of the Leased Property or any part thereof by Tenant.

1.105. "Indebtedness" shall mean all obligations, contingent or otherwise, which in accordance with GAAP should be reflected on the obligor's balance sheet as debt.

1.106. "Independent Member" means a Person who is not, and has not within the past five (5) years been, (i) an officer, director, employee, partner, member, manager, stockholder or beneficial-interest holder of Tenant; (ii) an officer, director, employee, partner, member, beneficial-interest holder, or stockholder of any "Affiliate" (as defined below) of Tenant; or (iii) a spouse, parent, sibling, or child of any Person described in (i) or (ii) of this section; provided, however, that a Person shall not be deemed to be a director or member of an Affiliate solely by reason of such Person being a director, manager, or member of a single-purpose entity that would otherwise be deemed to be an Affiliate because they are under common control. For the purpose of this definition alone, "Affiliate" means any Person (x) which owns beneficially, directly or indirectly, more than ten percent (10%) of the outstanding equity interest in Tenant or which is otherwise in control of Tenant; (y) of which more than ten percent (10%) of the outstanding voting securities are owned beneficially, directly or indirectly, by any Person described in clause (x) above; or (z) which is controlled by, or under common control with, any Person or entity described in clause (x) above; the terms "control" and "controlled by" shall have the meanings assigned to them in Rule 405 under the Securities Act of 1933.

1.107. ["Initial FF&E Lease" shall have the meaning given such term in paragraph (a) of Schedule 22.2.]

1.108. "Initial Working Capital" shall have the meaning given such term in Section 4.5.

1.109. "Insurance Requirements" shall mean all terms of any insurance policy required by this Lease and all requirements of the issuer of any such policy.

1.110. "Intangible Asset" shall mean, with respect to any Person, a long-lived asset that is useful in the operations of such Person, that is not directly used in revenue generation and that is not held for sale, and is without physical qualities, including but not limited to patents, copyrights and goodwill, but excluding capitalized costs associated with the acquisition of brand names, franchises and trademarks, franchise agreements and management agreements.

1.111. "Inventories" shall have the definition given it in the Uniform System, such as provisions in storerooms, refrigerators, pantries and kitchens; beverages

in wine cellars and bars; other merchandise intended for sale; fuel; mechanical supplies; stationery; and other expensed supplies and similar items.

1.112. "Labor Index" shall mean Employment Cost Index, Compensation, Private Industry, Services Industries, Not Seasonally Adjusted as published by the U.S. Department of Labor, Bureau of Labor Statistics.

1.113. "Land" shall have the meaning given such term in Section 2.1(a).

1.114. "Landlord" shall have the meaning given such term in the preamble to this Lease.

1.115. "Landlord Default" shall have the meaning given such term in Section 14.2.

1.116. "Landlord Indemnitee" shall have the meaning set forth in Section 4.3.3.

1.117. "Landlord Lien" shall have the meaning set forth in Section 7.2.

1.118. "Landlord Obligations" shall mean (i) Real Estate Taxes, (ii) any tax based on net income imposed on Landlord, (iii) any net revenue tax of Landlord, (iv) any transfer fee or other tax imposed with respect to the sale, exchange, financing, mortgaging, or other disposition by Landlord of the Leased Property or the proceeds thereof, (v) any sales, use, gross receipts or other similar tax relating to the leasing of the FF&E by Landlord to Tenant pursuant to this Lease, (vi) any single business tax, gross receipts tax, transaction, privilege, rent or similar taxes as the same relate to or are imposed upon Landlord, including, without limitation, any tax imposed on Landlord as a result of this Lease, (vii) any interest or penalties imposed on Landlord as a result of the failure of Landlord to file any return or report timely and in the form prescribed by law or to pay any tax or imposition, except to the extent such failure is a result of a breach by Tenant of its obligations pursuant to Section 3.1.3, (viii) any taxes or fees imposed on Landlord that are a result of Landlord not being considered a "United States person" as defined in Section 7701(a)(30) of the Code, (ix) any taxes or fees that are enacted or adopted as a substitute for any tax that would not have been payable by Tenant pursuant to the terms of this Lease, (x) any taxes, fees or amounts required to be paid to discharge Liens (a) imposed as a result of a breach of covenant or representation by Landlord in any agreement with Tenant governing Landlord's conduct or operation or (b) as a result of the gross negligence or willful misconduct of Landlord in connection with its ownership of the Leased Property or the performance of its obligations hereunder, or (c) securing any indebtedness or obligations of Landlord, or (d) imposed in connection with any other Landlord Obligations, (xi) any sales, use, occupancy or other similar tax imposed in connection with payments made pursuant to this Lease, (xii) all rent and other sums due from Landlord pursuant to any ground lease affecting the Leased Property or any portion thereof, (xiii) all premiums for insurance for which Landlord is responsible pursuant to Article 9 hereof, (xiv) all amounts payable by Landlord under or pursuant to the Management Agreement with respect to the Retained Obligations and/or the Continuing Obligations, (xv) any interest and/or penalties incurred by Tenant as a result of Landlord's

failure to forward any invoices, assessment notices or other bills relating to Impositions to Tenant, and (xvi) equipment rental costs that are treated as a "Deduction" under the Management Agreement. "Landlord Obligations" shall not include any sales, use, gross receipts, occupancy, single business, transaction, privilege, rent, ad valorem or other tax not specifically enumerated herein.

1.119. "Lease Year" shall mean any consecutive annual period starting on the Commencement Date and ending on the day prior to the anniversary thereof; provided that if the Commencement Date is not the first (1st) day of a calendar month, then the first (1st) Lease Year shall end on the last day of the calendar month in which the Commencement Date occurs.

1.120. "Leased Property" shall have the meaning given such term in Article 2.

1.121. "Legal Requirements" shall mean all applicable federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, and ordinances, and all applicable judicial, administrative and regulatory judgments, decrees and injunctions, affecting Tenant or the Leased Property or the maintenance, construction, alteration or operation thereof, whether now or hereafter enacted or in existence, including, without limitation, (a) all permits, licenses, certificates of need, authorizations and regulations necessary to operate the Leased Property for its Primary Intended Use and (b) all covenants, agreements, restrictions and encumbrances contained in any instruments either of record or actually known to Tenant (other than encumbrances hereafter created by Landlord without the consent of Tenant) at any time in force affecting the Leased Property, including those which may (i) require material repairs, modifications or alterations in or to the Leased Property or (ii) in any way materially adversely affect the use and enjoyment thereof, but excluding any requirements arising as a result of Host REIT's status as a real estate investment trust other than those set forth in Article 22 hereof.

1.122. "Lending Institution" shall mean any insurance company, federally insured commercial or savings bank, national banking association, savings and loan association, investment banking firm, employees' welfare, pension or retirement fund or system, syndicated lenders' group, commercial finance company, leasing company, corporate profit sharing or pension trust, college or university, or real estate investment trust, including any corporation qualified to be treated for federal tax purposes as a real estate investment trust, such trust having a Tangible Net Worth of at least $100,000,000.

1.123. "Licenses" shall have the meaning given such term in Section 5.3(d)(i).

1.124. "Lien" shall mean any mortgage, security interest, pledge, collateral assignment, or other encumbrance, lien or charge of any kind (including, without limitation, any easements, covenants, conditions and restrictions), or any transfer of any property or assets for the purpose of subjecting the same to an encumbrance, lien or charge securing the payment of Indebtedness or performance of any other obligation in priority to payment of any Person's general creditors.

1.125. [Intentionally Omitted.]

1.126. [Intentionally Omitted.]

1.127. [Intentionally Omitted.]

1.128. "Major Capital Expenditure" shall mean (a) any Capital Expenditure expected to result in a significant change in the use of any portion of the Facility intended to materially alter or enhance an existing use (including, by way of example and not limitation, the conversion of a typical hotel dining facility to a nationally-known, premium-quality restaurant); (b) any and all Capital Expenditures with respect to one or more new revenue-generating buildings, rooms, facilities, amenities, or structures constituting any portion of the Facility (including, by way of example and not limitation, the construction of a new wing or new story), or the renovation, material expansion, construction, or conversion of existing improvements of the Facility in order to increase the room capacity of the Facility, or to provide a functionally new facility needed to provide services not previously offered; or (c) any and all Capital Expenditures which, individually or in a series of related expenditures, have a total cost of completion in excess of the lesser of (i) seven and one-half percent (7.5%) of Gross Revenues for the Fiscal Year ending immediately prior to such expenditure, or (ii) $5,000,000. Notwithstanding the foregoing, in no event shall Major Capital Expenditures include any room, lobby, or ballroom refurbishments in the ordinary course or any other Routine Capital Expenditures.

1.129. "Management Agreement" shall mean the Management Agreement described in Section 21.3.1.

1.130. "Manager" shall have the meaning given such term in Section 21.3.1.

1.131. "Market Leasing Factor" shall have the meaning given such term in paragraph (e) of Schedule 22.2.

1.132. "Measurement Date" shall mean September 30th of each year during the Term.

1.133. [Intentionally Omitted.]

1.134. "Minimum Rent" shall mean for each Fiscal Year the amount set forth on Schedule 3.1.1, as may have been adjusted under the Original Lease
---
pursuant to Section 3.1.4 and/or Section 3.1.6 thereof, and as escalated pursuant to Section 3.1.4 and/or 3.1.6 hereof.

1.135. [Intentionally Omitted.]

1.136. [Intentionally Omitted.]

1.137. "Notice" shall mean a notice given in accordance with Section 23.10.

1.138. "Officer's Certificate" shall mean a certificate signed by an authorized officer of Tenant.

1.139. [Intentionally Omitted.]

1.140. "Operating Budget" shall have the meaning given such term in Section 17.3.

1.141. "Operating Budget Summary" shall have the meaning given such term in Section 17.3.

1.142. "Other Income" shall mean all revenues, receipts, and income of any kind derived directly or indirectly by Tenant from or in connection with the Facility and included in Gross Revenues other than Room Revenues and Food and Beverages Sales (including, without limitation, gross revenue from rental income, license fees, concession payments, or other amounts received from subtenants, licensees and concessionaires, but excluding all exclusions from Gross Revenues set forth in the definition thereof).

1.143. "Other Leases" shall mean any lease of a full service hotel, other than this Lease, under which Host O.P. or a Host Subsidiary is the lessor and a Host Subsidiary is the lessee.

1.144. "Other Tenants" shall mean the tenants under the Other Leases.

1.145. "Overdue Rate" shall mean, on any date, a per annum rate of interest equal to the lesser of the Prime Rate plus two (2) percentage points and the maximum rate then permitted under applicable law.

1.146. "Owner" shall have the meaning given such term in Section 21.3.1.

1.147. "Percentage Increase in CPI" shall mean, measured as of each Measurement Date, the percentage increase, if any, in the Consumer Price Index over the twelve (12) months preceding the Measurement Date.

1.148. "Percentage Increase in the Labor Index" shall mean, measured as of each Measurement Date, the percentage increase, if any, in the Labor Index over the twelve (12) months preceding the Measurement Date.

1.149. "Percentage Rent" shall mean the amount of Rent (excluding Additional Charges) payable pursuant to Section 3.1.1 with respect to one or more Accounting Periods or a Fiscal Year, as the case may be, in excess of Minimum Rent payable for such period.

1.150. "Percentage Rent Schedule" shall have the meaning given such term in Section 3.1.3(a).

1.151. "Period Report" shall have the meaning given such term in Section 17.2(f).

1.152. "Permitted Debt" shall have the meaning given such term in Section 21.6.3.

1.153. "Permitted Liens" shall mean (a) this Lease; (b) all rights, restrictions, and easements of record as of the Commencement Date; (c) the lessor's interest in any Excess FF&E leased to Tenant pursuant to [the Initial FF&E Lease or] an Excess FF&E Lease and the lessor's interest in any other furniture, fixtures or equipment leased to Tenant under any of the equipment leases included in the Assigned Agreements or entered into by Tenant during the Term; (d) security interests securing the purchase price of equipment or personal property acquired by Tenant before or after the Commencement Date (including, but not limited to, Excess FF&E owned by Tenant); provided, however, that (i) any such Lien described in this clause (d) shall at all times be confined solely to the asset in question, and (ii) the aggregate principal amount of Indebtedness secured by any such Lien described in this clause (d) shall not exceed the cost of acquisition of the property subject thereto; and (e) any other Liens as may have been consented to in writing by Landlord, and, if required pursuant to the Management Agreement, Manager, from time to time, including, without limitation, those granted in accordance with Section 5.5 hereof.

1.154. "Person" shall mean any individual or Entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such Person where the context so requires.

1.155. [Intentionally Omitted.]

1.156. [Intentionally Omitted.]

1.157. "Prepaid Expenses" shall have the meaning given such term in Schedule 3.1.5(e).
- -----------------

1.158. "Primary Intended Use" shall have the meaning given such term in Section 4.1.1.

1.159. "Prime Rate" shall mean the "prime rate" as published in the "Money Rates" section of The Wall Street Journal; however, if such rate is, at any time during the Term, no longer so published, the term "Prime Rate" shall mean the average of the prime interest rates that are announced, from time to time, by the three (3) largest banks (by assets) headquartered in the United States which publish a "prime rate."

1.160. "Qualified Affiliate" shall mean (i) Host O.P., (ii) any Person directly or indirectly wholly-owned by Host O.P. or (iii) if approved in writing by Manager prior to the consummation of any transaction as to which this definition is relevant, which approval may be granted or withheld by Manager in its sole discretion, any Person directly or indirectly controlled by Host O.P., where "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.161. "Qualified Appraiser" shall mean an appraiser who is not in control of, controlled by or under common control with either Landlord or Tenant or any Affiliate of Landlord or Tenant and has not been an employee of Landlord or Tenant or any Affiliate of Landlord or Tenant within the past two (2) years, who is qualified to appraise

commercial real estate in the State and is a member of the American Institute of Real Estate Appraisers (or any successor association or body of comparable standing if such institute is not then in existence).

1.162. "Real Estate Taxes" shall mean all real estate taxes, including general and special assessments and impact fees, if any, which are imposed upon or relate to the Land and any improvements thereon, including, without limitation, the following:

(a) any franchise, corporate, estate, inheritance, succession, or capital levy imposed on Landlord;

(b) special assessments (regardless of when due or whether they are paid as a lump sum or in installments over time) imposed because of facilities that are constructed by or on behalf of the assessing jurisdiction (i.e., roads, sidewalks, sewers, culverts, etc.), which directly benefit the Facility (regardless of whether or not they also benefit other buildings);

(c) impact fees (regardless of when due or whether they are paid as a lump sum or in installments over time) that are required of Landlord as a condition to the issuance of site plan approval, zoning variances or building permits; and

(d) tax-increment financing or similar financing whereby the municipality or other taxing authority has assisted in financing the construction of the Facility by temporarily reducing or abating normal impositions in return for substantially higher levels of impositions at later dates.

1.163. "Related Agreements" shall have the meaning given such term in Section 23.15.

1.164. "Rent" shall mean, collectively, Minimum Rent, Percentage Rent, and Additional Charges attributable to the Term of this Lease.

1.165. "Replacement Cost" shall have the meaning given such term in Section 9.3.

1.166. "Retained Obligations" shall have the meaning given such term in Section 21.3.1.

1.167. "Revenue Data Publication" shall mean Smith's STAR Report, a monthly publication distributed by Smith Travel Research, Inc., of Gallatin, Tennessee, or an alternative source, reasonably satisfactory to both parties, of data regarding the REVPAR of hotels in the general trade area of the Facility. If such Smith's STAR Report is discontinued in the future, or ceases to be a satisfactory source of data regarding the REVPAR of various hotels in the general trade area of the Facility (as provided in the Management Agreement), Tenant shall select, or shall cause Manager to select, an alternative source in accordance with the Management Agreement.

1.168. "Revenues Computation" shall have the meaning given such term in Section 3.1.2(a).

1.169. "REVPAR" shall mean (i) the term "revenue per room" as defined by the Revenue Data Publication or (ii) if the Revenue Data Publication is no longer being used (as more particularly set forth in the definition of "Revenue Data Publication"), the aggregate gross room revenues of the hotel in question for a given period of time divided by the total room nights of such hotel for such period. If clause (ii) of the preceding sentence is being used, a "room" shall be a hotel guestroom which is keyed as a single unit and shall include rooms that are temporarily unavailable due to maintenance or ongoing renovation work.

1.170. "Room Revenues" shall mean gross revenues from the rental of guest rooms, whether to individuals, groups, or transients at the Facility, determined in a manner consistent with GAAP, excluding the following:

(a) the amount of all credits, rebates or refunds to customers, guests or patrons;

(b) all sales taxes or any other taxes imposed on the rental of such guest rooms;

(c) any fees collected for amenities including, but not limited to, telephone, room service, laundry, movies or concessions.

1.171. "Routine Capital Expenditures" shall mean exterior and interior repainting, resurfacing of building walls, floors, roof and parking areas, replacing folding walls, and other on-going routine Capital Expenditures the cost of which is to be paid for by the Manager out of the FF&E Reserve.

1.172. "SEC" shall mean the Securities and Exchange Commission.

1.173. "Second Tier Food and Beverages Sales Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.174. "Second Tier Other Income Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.175. "Second Tier Room Revenue Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.176. "Security Agreement" shall have the meaning given such term in Section 7.2.

1.177. "Single Purpose" means, with respect to a Person, that such Person, (A) at all times since its formation, except as otherwise permitted in or contemplated by this Agreement (i) has been a duly formed and existing limited partnership, limited liability company, or corporation, as the case may be; (ii) has observed all customary formalities regarding its partnership, limited liability company or corporate existence; (iii) has maintained financial statements, accounting records, and other partnership, limited liability company, or corporate documents separate from those of any other Person (provided that nothing shall prohibit such Person from being included in the consolidated

financial statements or tax group of another Person); (iv) has not commingled its assets with those of any other Person; (v) has paid its own liabilities out of its own funds, including funds contributed to its capital by its equity holders, and all such capital contributions have been reflected properly in its books and records; (vi) has allocated fairly and reasonably any overhead for shared office expenses; (vii) has identified itself in all dealings with the public, under its own name and as a separate and distinct entity (provided that nothing shall prohibit such Person from engaging an agent to represent such Person with respect to tenants, vendors, and other parties, in accordance with standard industry practice); (viii) has not identified itself as being a division or part of any other Person; (ix) has not identified any other Person as being a division or part of such Person; (x) has corrected any known misunderstanding regarding its separate identity; (xi) has been adequately capitalized in light of the nature of its business; (xii) has not assumed or guaranteed the obligations of any other Person (other than by virtue of being a general partner of such other Person but only if such other Person is Tenant and provided that this clause shall not be deemed to be violated by reason of joint and several liabilities arising as a matter of law); and (xiii) has not engaged in any other business other than as permitted by this Lease (provided that nothing shall prohibit a general partner from acquiring, owning, and disposing of limited partner interests in any limited partnership, non-managing membership interests in a limited liability company, or debt securities issued by any Person, or the stock of a corporation that is not engaged in any activities other than such activities, provided that no liabilities or other obligations on the part of the holder of such investments will arise as a result of such investments and the only rights of the holder of such investment are the right to receive payments and the right to vote); (B) such Person agrees to covenants substantially to the effect of Sections 7.1 and 21.6 hereof; and (C) such Person's organizational documents contain restrictions similar to those contained in Sections 5.14 (only paragraphs a, b, c, d and g thereof), 10.01, 10.02, and 10.03 of the Limited Liability Company Operating Agreement of Tenant as in effect on the date hereof.

1.178. "Soft Goods" shall mean all fabric, textile and flexible plastic products (not including items that are classified as "Fixed Asset Supplies" under the Uniform System), which are used in furnishing the Facility, including, without limitation, carpeting, drapes, bedspreads, wall and floor coverings, mats, shower curtains and similar items.

1.179. "Special Form" shall have the meaning given such term in Section 9.1(b).

1.180. "State" shall mean the state, commonwealth, district, or, if the Leased Property is not located in the United States, the country, in which the Leased Property is located.

1.181. "Subsidiary" shall mean, as to any Person, (i) any corporation more than fifty percent (50%) of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person or one or more Subsidiaries of such Person and (ii) any partnership,

limited liability company, association, joint venture or other entity in which such Person or one or more Subsidiaries of such Person has more than a fifty percent (50%) equity interest at the time.

1.182. "Successor Landlord" shall have the meaning given such term in Section 20.2.

1.183. "Superior Landlord" shall have the meaning given such term in Section 20.2.

1.184. "Superior Lease" shall have the meaning given such term in Section 20.2.

1.185. "Superior Mortgage" shall have the meaning given such term in Section 20.2.

1.186. "Superior Mortgagee" shall have the meaning given such term in Section 20.2.

1.187. "Tangible Net Worth" of any Person shall mean, on any date, without duplication, (a) the sum of the shareholders' equity of such Person on a consolidated basis in accordance with GAAP minus (b) the sum of all Intangible Assets (net of accumulated amortization) of such Person and its Subsidiaries, each as shown on the consolidated balance sheets of such Person.

1.188. [Intentionally Omitted.]

1.189. "Tenant" shall have the meaning given such term in the preamble to this Lease.

1.190. "Tenant Indemnitee" shall have the meaning given such term in Section 4.3.2.

1.191. "Tenant's Operating Profit" shall equal for any Fiscal Year the amount equal to revenues due to Tenant from the Leased Property after the payment of all expenses relating to the operation or leasing of the Leased Property less Rent paid to Landlord, but in any event not less than $1.00.

1.192. "Tenant's Personal Property" shall mean all tangible and intangible personal property now owned, leased or hereafter acquired by Tenant on or after the date hereof, including, without limitation, Working Capital, Excess FF&E owned by Tenant, Excess FF&E Leasehold Interests, and all contracts and agreements to which Tenant is a party used in the operation of the Facility, but expressly excluding (a) FF&E leased hereunder, (b) Excess FF&E leased during the Term hereof by Tenant [and (c) FF&E leased pursuant to the Initial FF&E Lease, if any.]

1.193. "Term" shall have the meaning given such term in Section 2.4, unless sooner terminated pursuant to the terms of this Lease.

1.194. "Third-Party Purchaser" shall have the meaning given such term in paragraph (b) of Schedule 22.2.

1.195. "Third Tier Food and Beverages Sales Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.196. "Third Tier Room Revenue Percentage" shall have the meaning given such term in Section 3.1.2(b)(2).

1.196A "TRS" shall mean (i) HMT Lessee LLC, a Delaware limited liability company, and (ii) any Qualified Affiliate that is a direct or indirect successor to HMT Lessee LLC as the direct or indirect owner of the membership interest in Tenant.

1.197. "Trustee" shall have the meaning given such term in Section 16.1.

1.198. "Unavoidable Delay" shall mean delay due to strikes, acts of God, force majeure, governmental restrictions or actions (including the revocation or refusal to grant Licenses or permits, where such revocation or refusal is not due to the fault of the party whose performance is excused by reason of such Unavoidable Delay), enemy action, civil commotion, fire, unavoidable Casualty, condemnation or other comparable causes beyond the reasonable control of Landlord or Tenant; provided, however, that lack of funds shall not be deemed a cause beyond the reasonable control of a party, unless such lack of funds is caused by the breach of the other party's obligations under this Lease.

1.199. "Uniform System" shall mean the Uniform System of Accounts for the Lodging Industry (9th Revised Edition 1996) as published by the Hotel Association of New York City, Inc., as the same may hereafter be revised.

1.200. "Unsuitable for Its Primary Intended Use" shall mean a state or condition of the Facility such that (a) following any damage or destruction involving the Leased Property, the Leased Property cannot reasonably be expected to be restored within twelve (12) months following such damage or destruction to substantially the same condition as existed immediately before such damage or destruction or (b) as the result of a partial taking by Condemnation, the Facility cannot be operated on a commercially practicable basis for its Primary Intended Use taking into account, among other relevant factors, the number of usable rooms, the amount of square footage, or the revenues affected by such damage, destruction, or partial taking.

1.201. "Working Capital" shall have the meaning given such term in Section 4.5.

1.202. "Working Capital Note" shall have the meaning given such term in Section 4.5.

1.203. "Year End Percentage Rent Schedule" shall mean the Percentage Rent Schedule covering the immediately preceding full Fiscal Year delivered in accordance with Section 17.2(e).

ARTICLE 2
COLLECTIVE LEASED PROPERTY AND TERM

2.1 Leased Property.

Upon and subject to the terms and conditions hereinafter set forth, including, but not limited to, the execution, delivery and performance of the terms and conditions of the Consent and Assignment, and subject to the rights of any Facility Mortgagee and any Superior Landlord, Landlord leases to Tenant and Tenant leases from Landlord, effective as of the Commencement Date, all of Landlord's right, title, and interest in and to the following (collectively, the "Leased Property"):

(a) those certain tracts, pieces and parcels of land that are more particularly described in Exhibit A attached hereto (together with all and singular the rights and appurtenances pertaining to such tracts and parcels, including any right, title and interest of Landlord in and to any easements benefiting the Leased Property, adjacent strips or gores, streets, alleys or rights-of-way, and all rights of ingress and egress thereto) (the foregoing are hereinafter referred to collectively as the "Land");

(b) all buildings, structures, and other improvements of every kind situated upon the Land, including, but not limited to, all Capital Expenditures, alleyways and connecting tunnels, sidewalks, utility pipes, conduits and lines (onsite and offsite), parking areas and appurtenant roadways, all luxury apartments, all swimming pools, restaurants, hotel rooms, lounges, and various other guest and spa facilities (collectively, the "Facility");

(c) all easements, rights and appurtenances relating to the Land and the Facility;

(d) all equipment, machinery, and other items of property, now or hereafter permanently affixed to or incorporated into the Facility, including, without limitation, all lift systems, furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus, sprinkler systems, and fire and theft protection equipment, all of which, to the maximum extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto, but specifically excluding Tenant's Personal Property (collectively, the "Fixtures"); and

(e) the FF&E owned by Landlord located in or on the Facility or stored offsite and designated for use in connection with any present or future occupation or operation of the Facility, together with all replacements, modifications, alterations and additions thereto, but specifically excluding any Excess FF&E not owned by Landlord and Tenant's Personal Property.

2.2 Assignment and Assumption of Contracts; Initial Transaction.

(a) Effective upon the Commencement Date, Landlord transferred and assigned to Tenant and Tenant assumed and covenanted to perform all of Landlord's obligations under the following agreements and contracts to which the Leased Property was subject on the Commencement Date, to the maximum extent assignable pursuant to applicable law (the "Assigned Agreements"):

(i) All contracts for the use or occupancy of guest rooms and/or the meeting, dining, banquet, and spa and health facilities of the Facility;

(ii) All service and maintenance contracts, equipment leases, purchase orders and other contracts pertaining to the ownership, maintenance, operation, provisioning or equipping of the Facility, including warranties and guaranties relating thereto;

(iii) All Licenses and permits used in or relating to the ownership, occupancy or operation of any part of the Facility;

(iv) Any developer's, declarant's, or owner's interests under any operating agreements or reciprocal easement agreements or other similar agreements affecting and/or benefiting the Facility;

(v) Landlord's interest as owner under the Management Agreement as and to the extent provided in the Consent and Assignment; and

(vi) All leases of space (including any security deposits held by Landlord pursuant thereto, which were paid over to Tenant by check on the Commencement Date, or credited to Tenant against the cost of the Working Capital sold to Tenant pursuant to Section 4.5) in the Facility to tenants thereof, excluding those leases set forth on Schedule 2.2(a)(vi) attached hereto.

This Lease is executed by Landlord and accepted by Tenant on the understanding that Tenant will and does hereby assume and agree to perform all of Landlord's obligations arising from and after the Commencement Date under all of the Assigned Agreements (except to the extent otherwise provided with respect to the Management Agreement in the Consent and Assignment). With respect to the Management Agreement referred to in clause (v) above, Landlord shall be responsible for any deferred management fees that accrued prior to the Commencement Date, whenever they become payable; and Tenant shall be responsible for any deferred management fees that accrue during the Term; and, upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord or to Landlord's designee the amount of any deferred management fees that accrue and remain unpaid during the Term. In connection with the Licenses and permits described in clause (iii) above and the Management Agreement referred to in clause (v) above, Landlord shall be obligated (a) to take any action that can legally or contractually be taken only by it and not Tenant, (b) not to take any action that is not permitted by, or is contrary to the terms of, such Licenses or permits or the Management Agreement, and (c) to cooperate with Tenant as to actions that must be taken

in Landlord's name. Notwithstanding the foregoing but subject to Section 5.3(d)(ii) hereof, such Assigned Agreements shall, without the necessity of further documentation, be deemed reassigned to (and reassumed by) Landlord upon the expiration or earlier termination of the Term. In connection with any reassignment thereof occurring following the expiration or earlier termination of the Term, such reassignment shall not release Tenant from any liability thereunder with respect to the period beginning on the Commencement Date and ending on the date of expiration or earlier termination of the Term.

(b) As between Landlord and Tenant, Landlord shall be entitled to all income and shall be responsible for the payment or settlement of all expenses of the Leased Property accruing prior to the Commencement Date and after the expiration or earlier termination of the Term. Tenant shall act as Landlord's agent for the collection of all such income and shall remit the same to Landlord promptly upon Tenant's receipt thereof. Tenant shall notify Landlord of all such expenses and shall act as Landlord's payment agent for such expenses using funds provided by Landlord from time to time.

2.3 Condition of Leased Property.

Tenant acknowledges receipt and delivery of possession of the Leased Property. Subject to the warranty of title hereinafter set forth and the indemnifications by Landlord set forth in Sections 4.3.2, 9.9 and 21.3.3 hereof, Tenant accepts the Leased Property in its "as is" condition, subject to the rights of all occupants and parties in possession, the existing state of title, including all covenants, conditions, restrictions, reservations, mineral leases, easements and other matters of record or that are visible or apparent on the Leased Property, all applicable Legal Requirements, the lien of financing instruments, mortgages and deeds of trust, and such other matters which would be disclosed by an inspection of the Leased Property and the record title thereto or by an accurate survey thereof, and all other Permitted Liens. TENANT REPRESENTS THAT, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE, IT IS NOT RELYING ON ANY REPRESENTATION OR WARRANTY OF LANDLORD OR LANDLORD'S AGENTS OR EMPLOYEES WITH RESPECT TO THE CONDITION OF THE LEASED PROPERTY, AND EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE TENANT WAIVES ANY CLAIM OR ACTION AGAINST LANDLORD IN RESPECT THEREOF. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE, LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IN RESPECT OF THE LEASED PROPERTY OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, OR AS TO THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT, IT BEING AGREED THAT EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE, ALL SUCH RISKS ARE TO BE BORNE BY TENANT. NOTWITHSTANDING THE FOREGOING, LANDLORD HEREBY WARRANTS ITS [FEE/LEASEHOLD] TITLE TO THE LEASED PROPERTY TO TENANT, SUBJECT TO THE PERMITTED LIENS; PROVIDED, HOWEVER, THAT IN NO EVENT SHALL THE AMOUNT RECOVERABLE BY TENANT FOR ANY BREACH OF SUCH WARRANTY EXCEED TENANT'S PROPORTIONATE SHARE OF THE NET AMOUNT ACTUALLY COLLECTED BY LANDLORD UNDER LANDLORD'S EXISTING TITLE INSURANCE POLICIES, AFTER TAKING INTO

ACCOUNT THE AMOUNTS EXPENDED BY LANDLORD TO RECOVER THE AMOUNT COLLECTED AND THE AMOUNT OF ANY FEES OWED TO MANAGER RESULTING FROM BREACH OF SUCH WARRANTY. TENANT'S PROPORTIONATE SHARE FOR THE PURPOSES OF THE PRECEDING SENTENCE SHALL BE EQUAL TO THE FRACTION, EXPRESSED AS A PERCENTAGE, OBTAINED BY DIVIDING THE FAIR MARKET VALUE OF TENANT'S LEASEHOLD ESTATE AS DETERMINED IN ACCORDANCE WITH SECTION 24.1(b) BELOW BY THE FAIR MARKET VALUE OF THE LEASED PROPERTY AS DETERMINED BY ARTICLE 19. LANDLORD AGREES TO DILIGENTLY PURSUE THE TITLE COMPANY OR COMPANIES PROVIDING THE EXISTING TITLE INSURANCE IN THE EVENT IT IS DETERMINED THAT THERE IS A DEFECT IN LANDLORD'S TITLE TO THE LEASED PROPERTY. TENANT SHALL FULLY COOPERATE WITH LANDLORD IN THE PROSECUTION OF ANY SUCH CLAIMS, IN LANDLORD'S OR TENANT'S NAME, ALL AT LANDLORD'S SOLE COST AND EXPENSE.

2.4 Term.

2.4.1 Term. The term of this Lease (the "Term") shall commence on the Commencement Date and shall expire at 11:59 p.m. on the last day of the [tenth (10th)] Lease Year, unless sooner terminated pursuant to the terms of this Lease; provided that, subject to the terms of Article 13, the Term shall also include any period of holding over by Tenant and any Renewal Term.

2.4.2 Renewal Option. Landlord hereby grants to Tenant the right, exercisable at Tenant's option, subject to Section 20.5(c) (a "Tenant Renewal Option"), to renew the term of this Lease for _____ additional terms of seven (7) years each (each a "Renewal Term") at the Fair Market Rental as of the commencement of each such Renewal Term. If exercised, and if the conditions applicable thereto have been satisfied, the first Renewal Term shall commence immediately upon the expiration of the initial term hereof, and each succeeding Renewal Term shall commence immediately upon the expiration of the preceding term. The rights of renewal herein granted to Tenant shall be subject to, and shall be exercised in accordance with, the following terms and conditions:

(a) Tenant shall exercise its right with respect to each Renewal Term by giving Landlord Notice thereof during the month of April of the year immediately preceding the scheduled commencement of such Renewal Term (the "Renewal Notice").

(b) If the Renewal Notice is not timely given with respect to any Renewal Term, then Tenant's rights of renewal pursuant to this Section 2.4.2 shall lapse and be of no further force or effect with respect to all remaining Renewal Terms.

(c) Landlord shall be entitled to terminate all unexercised Tenant Renewal Options by providing Notice to Tenant thereof at any time during the calendar month of March of the year immediately preceding a year in which a Renewal Term is scheduled to commence.

(d) Landlord and Tenant shall use commercially reasonable efforts to negotiate and jointly determine the Fair Market Rental to be effective during any Renewal

Term by no later than March 31st of the year immediately preceding such Renewal Term. In the event Landlord and Tenant are unable to agree on the Fair Market Rental for a Renewal Term prior to Tenant's exercise of its Tenant Renewal Option, the Fair Market Rental shall be determined in accordance with the appraisal procedures set forth in Article 19 by no later than August 1st of the year immediately preceding the applicable Renewal Term.

(e) The components of Fair Market Rental, including Minimum Rent and Revenue Percentages and Break Points, determined as set forth in subparagraph (d), shall be set forth in revised Schedules 3.1.1 and 3.1.2, which Schedules shall, upon commencement of the applicable Renewal Term, be attached to the Lease and shall supersede such Schedules as were effective prior thereto.

(f) In order for Tenant to exercise the Tenant Renewal Option, at the time Tenant exercises such option, Tenant must meet the criteria for being an "Approved Tenant" as defined in the Consent and Assignment, and any exercise in violation of this Section 2.4.2(f) shall be null and void and of no force or effect, at law or equity.

ARTICLE 3
RENT

3.1 Rent.

Tenant shall pay to Landlord, in lawful money of the United States of America which shall be legal tender for the payment of public and private debts, without offset, abatement, demand or deduction, Minimum Rent, Percentage Rent and Additional Charges, during the Term, except as hereinafter expressly provided. All payments to Landlord shall be made by wire transfer of immediately available federal funds or by other means reasonably acceptable to Landlord in its sole discretion.

3.1.1 Payment of Rent.

On or before the second (2nd) Business Day after the required payment date under the Management Agreement for amounts due from Manager thereunder relating to each Accounting Period (whether or not such payment under the Management Agreement is made on the required payment date), Tenant shall pay to Landlord an amount of Rent equal to the excess, if any, of (A) the greater of (i) the product of (x) the Minimum Rent for the current Fiscal Year times (y) a fraction, the numerator of which is the number of elapsed Accounting Periods in such Fiscal Year (including the Accounting Period with respect to which payment of Rent is being made) and the denominator of which is 13 (or 12, if the Accounting Periods are then calendar months) or (ii) the Revenues Computation for such Fiscal Year (determined in accordance with Section 3.1.2), over (B) the aggregate amount of Rent previously paid pursuant to this Section 3.1.1 during such Fiscal Year (less the aggregate amount previously paid by Landlord to Tenant pursuant to the next sentence in this Section 3.1.1 during such Fiscal Year). In the event that the amount specified in clause (A) is less than the amount specified in clause (B) as of any payment date, then Landlord will promptly pay to Tenant the difference in cash. In the event of a change in the Accounting Period during the Term

which results in payment dates (and/or number of payments) different from the payment dates (and/or number of payments) provided for herein, the amount of subsequent installments of Minimum Rent shall be appropriately adjusted in a fair and equitable manner. In the absence of agreement between Landlord and Tenant on the appropriate adjustments, the matter may be submitted by either party to arbitration under Article 15 for resolution.

3.1.2 Revenues Computation.

(a) The "Revenues Computation" for the applicable Fiscal Year shall be the sum of the following amounts:

(1) an amount equal to the product of (a) the First Tier Room Revenue Percentage times (b) all year-to-date Room Revenues up to (but not exceeding) the Cumulative Portion of the Annual Room Revenues First Break Point,

(2) an amount equal to the product of (a) the Second Tier Room Revenue Percentage times (b) all year-to-date Room Revenues in excess of the Cumulative Portion of the Annual Room Revenues First Break Point up to (but not exceeding) the Cumulative Portion of the Annual Room Revenues Second Break Point,

(3) an amount equal to the product of (a) the Third Tier Room Revenue Percentage times (b) all year-to-date Room Revenues in excess of the Cumulative Portion of the Annual Room Revenues Second Break Point,

(4) an amount equal to the product of (a) the First Tier Food and Beverages Sales Percentage times (b) all year-to-date Food and Beverages Sales up to (but not exceeding) the Cumulative Portion of the Annual Food and Beverages Sales First Break Point,

(5) an amount equal to the product of (a) the Second Tier Food and Beverages Sales Percentage times (b) all year-to-date Food and Beverages Sales in excess of the Cumulative Portion of the Annual Food and Beverages Sales First Break Point up to (but not exceeding) the Cumulative Portion of the Annual Food and Beverages Sales Second Break Point,

(6) an amount equal to the product of (a) the Third Tier Food and Beverages Sales Percentage times (b) all year-to-date Food and Beverages Sales in excess of the Cumulative Portion of the Annual Food and Beverages Sales Second Break Point,

(7) an amount equal to the product of (a) the First Tier Other Income Percentage times (b) all year-to-date Other Income up to (but not exceeding) the Cumulative Portion of the Annual Other Income Break Point, and

(8) an amount equal to the product of (a) the Second Tier Other Income Percentage times (b) all year-to-date Other Income in excess of the Cumulative Portion of the Annual Other Income Break Point.

(b) The Revenues Computation shall be computed utilizing the following definitions:

(1) "Cumulative Portion" shall mean a fraction having as its numerator the total number of days in the Fiscal Year which have elapsed through the last day of the Accounting Period with respect to which a payment of Minimum Rent or Percentage Rent is due, and having as its denominator the total number of days in the Fiscal Year.

(2) "First Tier Room Revenue Percentage," "Second Tier Room Revenue Percentage," "Third Tier Room Revenue Percentage," "First Tier Food and Beverages Sales Percentage," "Second Tier Food and Beverages Sales Percentage," "Third Tier Food and Beverages Sales Percentage," "First Tier Other Income Percentage," and "Second Tier Other Income Percentage" shall mean the percentages set forth on Schedule 3.1.2.

(3) "Annual Room Revenues First Break Point," "Annual Room Revenues Second Break Point," "Annual Food and Beverages Sales First Break Point," "Annual Food and Beverages Sales Second Break Point," and "Annual Other Income Break Point" shall mean the amounts set forth on Schedule 3.1.2, as may have been adjusted under the Original Lease pursuant to Section 3.1.4 and/or Section 3.1.6 thereof, and as escalated pursuant to Section 3.1.4 and/or 3.1.6 hereof.

3.1.3 Confirmation of Percentage Rent.

(a) Tenant shall submit to Landlord on each rental payment date pursuant to Section 3.1.1 a reasonably detailed schedule (the "Percentage Rent Schedule"), signed and certified by Tenant to be correct, showing the Revenues Computation with respect to the Facility for the preceding Accounting Period and the calculation of the amount of Rent owed on such date (other than Additional Charges) by Tenant or the amount Landlord is required to pay to Tenant for such Accounting Period.

Tenant's Percentage Rent Schedule shall clearly indicate how much of the Gross Revenues is comprised by Room Revenues, Food and Beverages Sales and Other Income, and shall contain such detail and breakdown as Landlord may reasonably require. If, after notice from Landlord and the expiration of the cure period provided for in Section 12.1(c) of this Lease, Tenant fails to submit the Percentage Rent Schedule to Landlord when due, Landlord, in addition to any other remedies Landlord has, shall have the right (subject to compliance with the Management Agreement and the Consent and Assignment) to retain an independent certified public accountant, at Tenant's sole expense, to prepare such Percentage Rent Schedule and to perform all inspections and audits related thereto.

(b) Tenant shall maintain in accordance with the usual and customary practices of Tenant and in accordance with GAAP during the Term, for the current Fiscal Year and for the immediately preceding Fiscal Year, (i) complete and accurate general books of account, which shall reflect Gross Revenues and which shall include, without limitation, those items set forth and described on Schedule 3.1.3(b) hereof, and (ii) all other original records and
---
other pertinent papers that will enable Landlord to determine the Gross Revenues derived by Tenant during the relevant Fiscal Year from Room Revenues, Food and Beverages Sales and Other Income. Such records for the current and most recent Fiscal Year shall be maintained at Tenant's corporate headquarters. The provisions of this Section 3.1.3(b) shall survive the expiration or earlier termination of this Lease for a period of three (3) years thereafter, subject to extension upon Notice from Landlord, provided that all storage and related expenses of maintaining records beyond such three-year period shall be at Landlord's sole cost and expense. In addition to the audit rights set forth in Section 3.1.3(c) below, in the event Landlord, any Lending Institution, any Facility Mortgagee, or any potential purchaser of the Leased Property, or any of their respective representatives, desires to audit Tenant's financial records described in clauses (i) and (ii) above, Tenant shall, at Landlord's sole cost and expense, cooperate with such audit by making such records available at Tenant's corporate headquarters during normal business hours upon reasonable prior Notice.

(c) Landlord shall have fifty (50) days after the receipt of the Year End Percentage Rent Schedule to have an independent certified public accountant examine Tenant's records, during regular business hours upon reasonable prior Notice by Landlord, of Room Revenues, Food and Beverages Sales, and/or Other Income for the related Fiscal Year and all other relevant financial information. The acceptance by Landlord of each periodic payment of Percentage Rent shall not prejudice Landlord's right to proceed with such examination as described in the immediately preceding sentence. If Landlord raises no objections within such fifty (50)-day period, the Year End Percentage Rent Schedule shall be deemed to have been accepted by Landlord as true and correct, and Landlord shall have no further right to question its accuracy. Notwithstanding the foregoing, if the Owner (as defined in the Management Agreement) has less than sixty (60) days to review the annual operating statement under the Management Agreement, the fifty (50) day period set forth above shall be reduced to a number of days equal to (i) the number of days Owner has to review the annual operating statement under the Management Agreement, less (ii) five (5) days. If Landlord does raise such an objection, by Notice to Tenant, Landlord shall arrange for an independent certified public accountant to commence such examination within fifty (50) days after the date of such objection and shall cause such audit to be completed no later than one hundred eighty (180) days after Landlord's receipt

of the Year End Percentage Rent Schedule. Landlord shall pay all costs and expenses of such audit; provided, however:

(i) if such audit discloses that the amount of Percentage Rent was underreported by Tenant by five percent (5%) or more for such Fiscal Year, Tenant shall pay to Landlord, within fifteen (15) days of its receipt of Notice from Landlord, the cost of the audit, as Additional Charges, in addition to any deficiency in Percentage Rent that may be due to Landlord; or

(ii) if the audit discloses that the amount of Percentage Rent either was not underreported or was underreported by Tenant by less than five percent (5%), Landlord shall be responsible for all costs associated with the audit and Tenant shall pay, within fifteen (15) days of its receipt of Notice from Landlord, any deficiency in Percentage Rent that may be due to Landlord; or

(iii) if the audit discloses that the Percentage Rent was overreported by Tenant for the related Fiscal Year, Landlord shall be responsible for all costs associated with the audit, shall give Tenant Notice of such overreporting within fifteen (15) days of Landlord's receipt of audit results, and shall reimburse the amount of such overpayment to Tenant in cash along with delivery of such Notice to Tenant.

(iv) The provisions of this Section 3.1.3(c) shall survive the expiration or the earlier termination of this Lease for a period of one (1) year thereafter.

3.1.4 Annual Adjustments.

Upon the commencement of each Fiscal Year during the Term beginning with the second Fiscal Year, each of the Minimum Rent, the Annual Room Revenues First Break Point, the Annual Food and Beverages Sales First Break Point, the Annual Other Income Break Point, the Annual Food and Beverages Sales Second Break Point and the Annual Room Revenues Second Break Point shall be increased by the amount of the applicable Annual Adjustment.

In no event shall the Minimum Rent, the Annual Room Revenues First Break Point, Annual Food and Beverages Sales First Break Point, the Annual Room Revenues Second Break Point, the Annual Food and Beverages Sales Second Break Point, or the Annual Other Income Break Point be reduced as a result of the Annual Adjustment. The Annual Adjustment described above shall be effective on the first day of the new Fiscal Year. If Rent for the new Fiscal Year is paid prior to the determination of the amount of the Annual Adjustment, whether because of a delay in the publication of the Consumer Price Index or the Labor Index applicable for the Measurement Date or because of any other reason, payment adjustments for any shortfall in Rent paid shall be made with the first Minimum Rent and Percentage Rent payments due after the Annual Adjustment is determined.

If (1) a significant change is made in the number or nature (or both) of items used in determining the Consumer Price Index or the Labor Index or (2) the Consumer Price Index or Labor Index shall be discontinued for any reason, the Bureau of Labor Statistics shall be requested to furnish a new index comparable to the Consumer Price Index or Labor Index, together with information that will make possible a conversion to the new index in computing the Annual Adjustment. If for any reason the Bureau of Labor Statistics does not furnish such an index and information, the parties will instead mutually select, accept and use such other indexes or comparable statistics on the cost of living and cost of labor in various United States cities that is computed and published by an agency of the United States or a responsible financial periodical of recognized authority.

3.1.5 Additional Charges.

In addition to the Minimum Rent and Percentage Rent payable hereunder, Tenant shall pay and discharge as and when due and payable the following (collectively, "Additional Charges"):

(a) Impositions. Subject to Article 8 relating to Permitted Contests and the right of any Facility Mortgagee to require tax escrows as described in the last sentence of this paragraph of subsection (a), Tenant shall pay or cause to be paid all Impositions attributable to any period during the Term before any fine, penalty, interest or cost (other than any opportunity cost as a result of a failure to take advantage of any discount for early payment) may be added for nonpayment, such payments to be made directly to the taxing authorities where feasible, and shall promptly, upon request, furnish to Landlord copies of official receipts or other satisfactory proof evidencing such payments. If any such Imposition may, at the option of the taxpayer, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Tenant may exercise the option to pay the same (and any accrued interest on the unpaid balance of such Imposition) in installments and, in such event, shall pay such installments during the Term as the same become due and before any fine, penalty, premium, further interest or cost may be added thereto. Landlord, at its expense, shall, to the extent required or permitted by Legal Requirements, prepare and file all tax returns required to be filed by Landlord, including, without limitation, returns in respect of Landlord's net income, gross receipts, sales and use, single business, transaction, privilege, rent, ad valorem, franchise taxes, Real Estate Taxes and other Landlord Obligations, and taxes on its capital stock, and Tenant, at its expense, shall, to the extent required or permitted by Legal Requirements, prepare and file all tax returns and reports required to be filed by Tenant in respect of any Imposition as may be required by any Government Agency. Provided no monetary Default or Event of Default shall have occurred and be continuing, if any refund shall be due from any taxing authority in respect of any Imposition paid by Tenant, the same shall be paid over to or retained by Tenant. Landlord and Tenant shall each, upon request of the other, provide such data as is maintained by the party to whom the request is made with respect to the Leased Property as may be necessary to prepare any required returns and reports. In the event Government Agencies classify any property covered by this Lease as personal property, Tenant shall file all personal property tax returns in such jurisdictions where it may legally be required to so file. Each party shall, to the extent it possesses the same, provide the other, upon request, with cost and depreciation records necessary for filing returns for any property so classified as personal property. Where

Landlord is legally required to file personal property tax returns, Landlord shall provide Tenant with copies of assessment notices in sufficient time for Tenant to file a protest. All Impositions assessed against such personal property that comprises FF&E shall be (irrespective of whether Landlord or Tenant shall file the relevant return) paid by the party that owns the FF&E not later than the last date on which the same may be made without interest or penalty. All Impositions assessed against such personal property that comprises Tenant's Personal Property shall be (irrespective of whether Landlord or Tenant shall file the relevant return) paid by Tenant not later than the last date on which the same may be made without interest or penalty. If the provisions of any Facility Mortgage require deposits on account of Impositions to be made with the Facility Mortgagee, provided the Facility Mortgagee has not elected to waive such provision, Tenant shall either pay Landlord the monthly amounts required with respect to any such Impositions at the time and place that payments of Minimum Rent are required and Landlord shall transfer such amounts to the Facility Mortgagee or, pursuant to written direction by Landlord, Tenant shall make such deposits directly with the Facility Mortgagee, and such payment to Landlord or Facility Mortgagee shall be deemed to satisfy Tenant's obligation hereunder to pay the Impositions.

Landlord shall give prompt Notice to Tenant of all Impositions payable by Tenant hereunder of which Landlord at any time has knowledge; provided, however, that Landlord's failure to give any such Notice shall in no way diminish Tenant's obligation hereunder to pay such Impositions, except that Landlord shall be responsible for any interest and/or penalties incurred by Tenant as a result of Landlord's failure to forward any invoices, assessment notices or other bills to Tenant and no Default or Event of Default shall be deemed to have occurred hereunder if Tenant's failure to pay timely any Impositions is due to Landlord's failure to give Tenant such Notice at least ten (10) days before the amounts therein are due.

Tenant shall give prompt Notice to Landlord of all taxes included in Landlord Obligations payable by Landlord hereunder of which Tenant at any time has knowledge; provided, however, that Tenant's failure to give any such Notice shall in no way diminish Landlord's obligation hereunder to pay such Landlord Obligations, except that Tenant shall be responsible for any interest and/or penalties incurred by Landlord as a result of Tenant's failure to forward any invoices, assessment notices or other bills to Landlord and no Landlord Default shall be deemed to have occurred hereunder if Landlord's failure to pay timely any taxes included in Landlord Obligations is due to Tenant's failure to give Landlord such Notice at least ten (10) days before the amounts therein are due.

(b) Utility Charges. Tenant shall pay or cause to be paid all charges for electricity, power, gas, oil, water and other utilities used in connection with the Leased Property.

(c) Insurance Premiums. Except as otherwise provided in Section 9.2, Tenant shall pay or cause to be paid all premiums for the insurance coverage required to be maintained by it pursuant to Article 9.

(d) Other Charges. Tenant shall pay or cause to be paid all other amounts, liabilities and obligations that Tenant assumes or agrees to pay under this Lease, including, without limitation, all agreements to indemnify Landlord under Sections 4.3.3 and 9.8.

(e) [Intentionally Omitted.]

(f) Reimbursement for Additional Charges. If Tenant (as opposed to Manager) pays or causes to be paid Additional Charges attributable to periods before the Commencement Date, Tenant shall provide Notice to Landlord of such amounts and, within fifteen (15) days thereafter, Landlord shall remit to Tenant the amount of such Additional Charges paid. If Tenant pays or causes to be paid Additional Charges attributable to periods after the end of the Term, Tenant may, within sixty (60) days after the end of the Term, provide Notice to Landlord of such amounts. Provided no uncured monetary Default or Event of Default then exists, Landlord shall reimburse Tenant for all payments of such Additional Charges that are attributable to any period after the expiration or earlier termination of the Term of this Lease within fifteen (15) days after its receipt of such Notice. Notwithstanding the foregoing, Tenant shall only be reimbursed to the extent such Additional Charges are not taken into account in the calculation and settlement of Working Capital accounts as set forth in Section 4.5. In the event Manager pays for Additional Charges attributable to periods before the Commencement Date, Tenant shall receive a payment as set forth in Section 3.1.6(g) below. Tenant shall reimburse Landlord within fifteen (15) days after receipt of Notice (which shall be given within sixty (60) days after the end of the Term) for any Additional Charges paid by Landlord attributable to periods during the Term for which Tenant received a credit in the settlement of Working Capital.

3.1.6 Adjustments to/Abatements of Rent.

(a) FF&E Adjustment to Rent. Pursuant to the terms of Schedule 22.2, Rent shall be reduced by the amount of the FF&E Adjustments then in effect. In the event there is an FF&E Adjustment which commences on a day other than the first day of an Accounting Period in which such FF&E Adjustment occurs, Landlord shall reimburse Tenant in cash, within fifteen (15) days after such FF&E Adjustment, an amount equal to the amount by which Rent paid for the Accounting Period in which the FF&E Adjustment commenced exceeded the amount of Rent (as reduced by the FF&E Adjustment) owed for such Accounting Period. [Insert the following for Leases with an Initial FF&E Lease on the Commencement Date.] [For the initial five years of the term of this Lease, there shall be an FF&E Adjustment in effect of $_____ per Fiscal Year (which amount represents the product of (i) the agreed upon value of $_____ for the Excess FF&E covered by the Initial FF&E Lease, and (ii) an agreed upon Market Leasing Factor for such Excess FF&E of [36%] per annum.]

(b) Adjustments of Rent Following Owner-Funded Capital Expenditures Under Management Agreement. Except as otherwise provided in Section 3.1.6(c) or (e), effective on the date of any "Owner"-funded Capital Expenditures (as the term "Owner" is defined in the Management Agreement) paid by Landlord (other than Capital Expenditures paid out of the FF&E Reserve), the Rent due for each Fiscal Year

thereafter in which Room Revenues for such Fiscal Year exceed the Annual Room Revenues Second Break Point shall be increased by an amount equal to [2%] of the amount of such contributions or expenditures.

(c) Adjustment of Rent for Major Capital Expenditures. In the event of either a reduction or increase in Gross Revenues or an adverse or beneficial impact on the Facility's operations, in either case resulting from any Major Capital Expenditure, Landlord and Tenant shall, in good faith, negotiate possible modifications to the Minimum Rent and Percentage Rent to determine an appropriate temporary or permanent adjustment of Rent and the effective date of such adjustment. If Landlord and Tenant are unable to agree that a reduction or increase in Gross Revenues or an adverse or beneficial impact on Facility operations, in either case resulting from any Major Capital Expenditure, has occurred, within thirty (30) days after the date of Notice from either party to the other that such event has occurred (accompanied by reasonably detailed computations and documentation to support such assertion), the matter may be submitted by either party to arbitration under Article 15 for resolution and for determination of the amount of the adjustment to Minimum Rent and Percentage Rent contemplated hereby. For purposes of any such arbitration, the arbitrator shall assume that, except with respect to the proposed rent adjustment relating to a Major Capital Expenditure, Landlord and Tenant regard the then-existing economic relationship between them as being fair and equitable and reflecting an arms-length transaction. Accordingly, the arbitrator shall not use such proposed rent adjustment as a basis for modifying in any material way the then-existing economic provisions and other material terms of the Lease, other than in respect of such proposed rent adjustment. The rent adjustment contemplated hereby shall reflect a fair market rent adjustment with respect to the reduction or increase in Gross Revenues or an adverse or beneficial impact on Facility operations, in either case resulting from any Major Capital Expenditure. Tenant shall continue to pay Minimum Rent and Percentage Rent as required under Sections 3.1.1 through 3.1.5 of this Lease until such time as any adjustments to Percentage Rent and/or Minimum Rent are agreed upon or determined as set forth above.

(d) Adjustment of Rent for Increases or Decreases in the FF&E Reserve Percentage. In the event that, in any Fiscal Year after Fiscal Year 1999, there is an increase or decrease, as the case may be, in the percentage of Gross Revenues from the Leased Property required to be deposited by Landlord in the FF&E Reserve (the "FF&E Reserve Percentage"), the Rent due for each Fiscal Year thereafter in which Room Revenues for such Fiscal Year exceed the Annual Room Revenues Second Break Point shall be increased (in the case of an increase in the FF&E Reserve Percentage) by an amount equal to the product of (i) the aggregate of the Room Revenues, the Food and Beverages Sales and the Other Income for such Fiscal Year times (ii) [19]% times (iii) the percentage point increase in the FF&E Reserve Percentage, or decreased (in the case of a decrease in the FF&E Reserve Percentage) by an amount equal to the product of (i) the aggregate of the Room Revenues, the Food and Beverages Sales and the Other Income for such Fiscal Year times (ii) [21]% times (iii) the percentage point decrease in the FF&E Reserve Percentage, in each case for the period during which the adjusted FF&E Reserve Percentage remains in effect.

(e) Adjustment of Rent for Landlord Funded Increase in FF&E Reserve. In the event that Landlord is required by Manager to fund an increase in the FF&E Reserve (other than by reason of an increase in the FF&E Reserve Percentage), the Rent due for each of the five full Fiscal Years following the Fiscal Year in which the funding of such increase occurred shall be increased, for each Fiscal Year during such five (5)-year period that the Room Revenues for such Fiscal Year exceed the Annual Room Revenues Second Break Point, by an amount equal to [4.75]% of the dollar amount increase in the FF&E Reserve resulting from such funding.

(f) Tenant Reimbursement for Landlord Obligations Paid by Manager or Tenant. Landlord shall reimburse Tenant in cash for the amount of any Landlord Obligations either (i) paid by Manager and deducted by Manager out of amounts owed to Tenant in accordance with the Management Agreement or (ii) paid by Tenant, such reimbursement to be paid within fifteen (15) days after receiving Notice thereof, provided no uncured monetary Default or Event of Default then exists.

(g) Tenant Reimbursement for Additional Charges Attributable to Periods prior to the Commencement Date and Paid by Manager. In the event Manager pays Additional Charges attributable to the period before the Commencement Date, and deducts the same from "Gross Revenues" (as defined in the Management Agreement) in accordance with the Management Agreement, and such Additional Charges were not taken into account in the calculation and settlement of Working Capital accounts as set forth in Section 4.5, such Additional Charges shall be the responsibility of Landlord, and Landlord shall remit to Tenant in cash within fifteen (15) days after receiving Notice thereof the amount of such Additional Charges paid, provided no uncured monetary Default or Event of Default then exists. In the event any item of Gross Revenues attributable to periods prior to the Commencement Date is not properly reflected in the initial calculation of Working Capital pursuant to Section 4.5, Tenant shall remit to Landlord in cash within fifteen (15) days after receiving Notice thereof the amount of such item not properly reflected.

(h) Abatement of Rent for Casualty. If and to the extent that any Casualty results in a reduction of Gross Revenues as provided in Section 10.5, then Rent shall be abated to the extent provided in Section 10.5.

(i) Abatement of Rent for Partial Condemnation. In the event of a partial Condemnation as described in Section 11.2 which does not result in a termination of this Lease by Landlord pursuant to Section 11.2, the Rent shall be abated in the manner and to the extent provided in Section 11.3.

3.2 Late Payment of Rent.

If any installment of (i) Minimum Rent, (ii) Percentage Rent, or (iii) Additional Charges (but only as to those Additional Charges that are payable directly to Landlord) shall not be paid on its due date, Tenant shall pay Landlord, on demand, as Additional Charges, a late charge (to the extent permitted by law) computed at the Overdue Rate on the amount of such installment, from the due date of such installment to the date of payment thereof. To the extent that Tenant pays any Additional Charges

directly to Landlord or the Facility Mortgagee pursuant to any requirement of this Lease, Tenant shall be relieved of its obligation to pay such Additional Charges to the Entity to which they would otherwise be due.

In the event of any failure by Tenant to pay any Additional Charges when due to any Entity other than Landlord, Tenant shall promptly pay and discharge, as Additional Charges, every fine, penalty, interest and cost that may be added by the Entity to which such Additional Charges are due (other than Landlord) for nonpayment or late payment of such items (subject to Landlord's obligation to pay or reimburse as provided in Section 3.1.5(a)).

3.3 Net Lease.

The Rent shall be absolutely net to Landlord so that this Lease shall yield to Landlord the full amount of the installments or amounts of Rent throughout the Term, subject to any other provisions of this Lease which expressly provide for adjustment or abatement of such Rent or expressly provide that certain Landlord Obligations and Capital Expenditures are to be paid and/or performed by Landlord; provided, that no adjustment to Rent under this Section shall have the effect of basing Rent, in whole or in part, on the income or profits of any Person.

3.4 No Termination, Abatement, Etc.

Except as otherwise specifically provided in this Lease, Tenant, to the maximum extent permitted by law, shall remain bound by this Lease in accordance with its terms and shall neither take any action without the consent of Landlord to modify, surrender or terminate this Lease, nor seek, nor be entitled to, any abatement, deduction, deferment or reduction of the Rent, or set-off against the Rent, nor shall the respective obligations of Landlord and Tenant be otherwise affected by reason of (a) any damage to or destruction of the Leased Property or any portion thereof from whatever cause or any Condemnation; (b) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of the Leased Property, or any portion thereof, or the interference with such use by any Person, except to the extent that a court of competent jurisdiction has issued a final, nonappealable order determining that Tenant was constructively evicted from the Leased Property; (c) any claim that Tenant may have against Landlord by reason of any default or breach of any warranty by Landlord under this Lease or any other agreement between Landlord and Tenant, or to which Landlord and Tenant are parties (except for the Consent and Assignment); (d) any bankruptcy, insolvency, reorganization, composition, readjustment liquidation, dissolution, winding up or other proceedings affecting Landlord or any assignee or transferee of Landlord; or (e) any other cause whether similar or dissimilar to any of the foregoing, other than a discharge of Tenant from any such obligations as a matter of law; provided, however, that the foregoing shall not apply or be construed to restrict any other rights Tenant may have as a result of any act or omission by Landlord constituting gross negligence or willful misconduct. Tenant hereby waives all rights arising from any occurrence whatsoever, which may now or hereafter be conferred upon it by law, to (i) modify, surrender or terminate this Lease or quit or surrender the Leased Property or any portion thereof, or (ii) entitle Tenant to any abatement, reduction, suspension or deferment of the Rent or other sums payable or other obligations to be

performed by Tenant hereunder, except as otherwise specifically provided in this Lease and except to the extent that a court of competent jurisdiction has issued a final, nonappealable order determining that Tenant was constructively evicted from the Leased Property. The obligations of Tenant hereunder shall be separate and independent covenants and agreements, and the Rent and all other sums payable by Tenant hereunder shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to the express provisions of this Lease or this Lease shall be terminated. Notwithstanding anything set forth in this Lease to the contrary, in any instance where, after the occurrence of a Default or an Event of Default, this Lease expressly permits Landlord to retain funds which, but for the Default or Event of Default, would be payable to Tenant, Landlord shall refund such funds to Tenant to the extent the amount exceeds the amount estimated by Landlord in good faith to be necessary to compensate Landlord for any cost, loss, or damage incurred or reasonably expected to be incurred in connection with such Default or Event of Default.

3.5 [Intentionally Omitted.]

ARTICLE 4
USE OF THE LEASED PROPERTY

4.1 Permitted Use.

4.1.1 Primary Intended Use.

Tenant shall, at all times during the Term and at any other time that Tenant shall be in possession of any Leased Property, continuously use the Leased Property for the operation of a first class, full-service hotel and for such other uses as may be incidental or necessary thereto (such use being hereinafter referred to as the Leased Property's "Primary Intended Use"). Tenant covenants and agrees to use its best efforts to operate the Facility according to First Class Operating Standards (which, during any period when the Management Agreement is in effect, Tenant shall be deemed to have done so long as Tenant uses its best efforts to cause the Manager to operate the Facility in accordance with the terms of the Management Agreement) and, except as otherwise expressly provided herein, agrees to pay all costs related thereto. Tenant shall not use the Leased Property or any portion thereof for any use inconsistent with the Primary Intended Use without the prior written consent of Landlord. Tenant shall not take or omit to take any action, the taking or omission of which materially impairs the value or the usefulness of the Leased Property or any part thereof for its Primary Intended Use.

4.1.2 Necessary Approvals.

Tenant shall proceed with all due diligence and exercise best efforts to obtain and maintain (or to cause Manager to procure and maintain) all Licenses necessary to use and operate, for its Primary Intended Use, the Leased Property and Facility located thereon under Legal Requirements and Landlord shall cooperate with respect to obtaining any such License, including joining in any application for Licenses to the extent required by Legal Requirements.

4.1.3 Lawful Use, Etc.

Tenant shall not use, and shall use commercially reasonable efforts to prohibit third parties from using, the Leased Property or Tenant's Personal Property for any unlawful purpose. Tenant shall not commit, and shall use commercially reasonable efforts not to suffer to be committed, any waste on the Leased Property, or in the Facility, nor shall Tenant cause or permit any nuisance thereon or therein. Tenant shall not use, and shall use commercially reasonable efforts to prohibit third parties from using, the Leased Property or any portion thereof, including Tenant's Personal Property, in such a manner as (i) might reasonably tend to impair Landlord's (or Tenant's, as the case may be) title thereto or to any portion thereof or (ii) may reasonably make possible a claim or claims for adverse usage or adverse possession by the public, or of implied dedication of the Leased Property or any portion thereof. Tenant shall not use, and shall use commercially reasonable efforts to prohibit third parties from using, the Leased Property in any manner that will cause the cancellation of any insurance policy covering the Leased Property or any part thereof (unless another adequate policy is available), nor shall Tenant sell or otherwise provide to guests or residents therein, and shall use commercially reasonable efforts to prohibit third parties from keeping, using or selling in or about the Leased Property, any article which may be prohibited by law or by the standard form of fire insurance policies, or any other insurance policies required to be carried hereunder, or fire underwriter's regulations.

4.2 Compliance with Legal and Insurance Requirements, Etc.

Subject to the provisions of the Management Agreement and Article 8 hereof, and subject to compliance by Landlord with its obligations hereunder, Tenant, at its sole expense, shall (i) comply in all material respects with Legal Requirements and Insurance Requirements in respect of the use, operation, maintenance, repair, alteration and restoration of the Leased Property, including Legal Requirements regarding labor relations with respect to Manager's employees as required pursuant to the Management Agreement, and (ii) procure, maintain and comply in all material respects with all appropriate licenses, permits, and other authorizations and agreements required for any use of the Leased Property and Tenant's Personal Property then being made, and for the proper erection, installation, operation and maintenance of the Leased Property or any part thereof. Landlord shall comply in all material respects with Legal Requirements pertaining to Landlord regarding labor relations with respect to Manager's employees.

4.3 Environmental Matters.

4.3.1 Restriction on Use, Etc.

Tenant shall not store, spill upon, dispose of or transfer to or from the Leased Property any Hazardous Materials, except that Tenant may store, transfer and dispose of Hazardous Materials in compliance with all Environmental Laws. Tenant shall use commercially reasonable efforts to cause Manager to maintain the Leased Property at all times free of any Hazardous Materials (except such Hazardous Materials as are maintained in compliance with all Environmental Laws). Tenant shall promptly (a) notify Landlord in writing of any material change in the nature or extent of Hazardous Materials

at the Leased Property of which Tenant has notice or actual knowledge, (b) transmit to Landlord a copy of any Community Right to Know report which is required to be filed by Tenant with respect to the Leased Property pursuant to SARA Title III or any other Environmental Law, (c) transmit to Landlord copies of any demand letters, complaints or other documents initiating legal action, citations, orders, notices or other material communications asserting claims by private parties or government agencies with respect to Hazardous Materials received by Tenant or its agents or representatives (collectively, "Environmental Notice"), which Environmental Notice requires a written response or any action to be taken and/or if such Environmental Notice gives notice of and/or could give rise to a material violation of any Environmental Law and/or could give rise to any material cost, expense, loss or damage (an "Environmental Obligation"), (d) use commercially reasonable efforts to cause Manager to observe and comply with all Environmental Laws relating to the use, maintenance and disposal of Hazardous Materials and all orders or directives from any official, court or agency of competent jurisdiction relating to the use or maintenance thereof or requiring the removal, treatment, containment or other disposition thereof, and (e) subject to Section 4.3.2, pay or otherwise dispose of any fine, charge or imposition related thereto, unless Tenant shall contest the same in good faith and by appropriate proceedings and the right to use, and the value of, the Leased Property is not adversely affected thereby in any substantial manner.

If at any time Hazardous Materials are discovered in violation of Environmental Laws on the Leased Property, subject to Section 4.3.2 Tenant shall exercise commercially reasonable efforts to cause Manager to take all actions and incur any and all expenses (which actions and expenses shall be subject to Landlord's prior approval, not to be unreasonably withheld, conditioned or delayed except in Emergency Situations, in which case Landlord's prior approval shall not be required) as may be necessary or as may be required by any Government Agency (i) to clean up and remove from and about the Leased Property all Hazardous Materials thereon, (ii) to contain and prevent any further release or threat of release of Hazardous Materials on or about the Leased Property and (iii) to use good faith efforts to eliminate any further release or threat of release of Hazardous Materials on or about the Leased Property.

4.3.2 Environmental Indemnification of Tenant by Landlord.

Landlord shall protect, indemnify and hold harmless Tenant, its Affiliates and their respective members, shareholders or other equity owners, directors, management committee, or similar persons, trustees, officers, and employees and any of their respective successors or assigns (hereafter the "Tenant Indemnitees," and when referred to singly, a "Tenant Indemnitee") for, from and against any and all debts, liens, claims, causes of action, administrative orders or notices, costs, fines, penalties or expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon, incurred by or asserted against any Tenant Indemnitee resulting from, either directly or indirectly, the presence during the Term in the Environment of the Leased Property or any properties surrounding the Leased Property of any Hazardous Materials (collectively, "Environmental Liabilities"), except to the extent that the same arise by reason of the negligence or willful misconduct of Tenant, any other Tenant Indemnitee, or their respective agents (including during the Term, the Manager). Landlord's duty herein includes, but is not limited to, indemnification for costs associated with personal injury or

property damage claims as a result of the presence of Hazardous Materials in, upon or under the soil or ground water of the Leased Property in violation of any Environmental Law. Upon Notice from Tenant, Landlord shall undertake the defense, at Landlord's sole cost and expense, of any indemnification duties set forth herein, in which event Landlord shall not be responsible for any duplicative attorneys' fees incurred by any Tenant Indemnitee.

Landlord shall, upon demand, pay to Tenant any cost, expense, loss or damage (including, without limitation, reasonable attorneys' fees) incurred by Tenant in asserting any right under this Section 4.3.2, including, without limitation, any right of indemnity under this Section 4.3.2 or otherwise arising from a failure of Landlord strictly to observe and perform the foregoing requirements, which amounts shall bear interest from the date upon which demand is made therefor until paid by Landlord to Tenant at the Overdue Rate. Landlord agrees to waive any and all rights of contribution from Tenant which might arise under applicable law for any liability imposed upon Landlord pursuant to this Section 4.3.2.

4.3.3 Environmental Indemnification of Landlord by Tenant.

Tenant shall protect, indemnify and hold harmless Landlord and each Facility Mortgagee, their Affiliates and their respective members, shareholders or other equity owners, directors, management committee, or similar persons, trustees, officers, and employees, and any of their respective successors or assigns (hereafter the "Landlord Indemnitees," and when referred to singly, a "Landlord Indemnitee") for, from and against any and all Environmental Liabilities to the extent that the same arise by reason of Tenant's, any other Tenant Indemnitee's, or their respective agents' (including the Manager's) gross negligence or willful misconduct. Upon Notice from Landlord, Tenant shall undertake the defense, at Tenant's sole cost and expense, of any indemnification duties set forth herein, in which event Tenant shall not be responsible for payment of any duplicative attorneys' fees incurred by any Landlord Indemnitee.

Tenant shall, upon demand, pay to Landlord, as an Additional Charge, any cost, expense, loss or damage (including, without limitation, reasonable attorneys' fees) incurred by Landlord in asserting any right under this Section 4.3.3, including, without limitation, any right of indemnity under this Section 4.3.3 or otherwise arising from a failure of Tenant strictly to observe and perform the foregoing requirements, which amounts shall bear interest from the date upon which demand is made therefor until paid by Tenant to Landlord at the Overdue Rate. The foregoing notwithstanding, with respect to Tenant's indemnification of Landlord for the acts or failure to act of Manager, Tenant shall only become obligated to pay any sums upon and to the extent of a final, non-appealable determination, in a judicial proceeding in which Manager is a party (or a binding written acknowledgment of Manager to such effect), that Manager is liable to Tenant for Environmental Liabilities in accordance with the terms of the Management Agreement.

4.3.4 Survival.

The provisions of this Section 4.3 shall survive the expiration or sooner termination of this Lease.

4.4 FF&E Reserve.

Tenant shall cause Manager to establish and maintain a reserve account (the "FF&E Reserve") in accordance with the terms of the Management Agreement and to deposit into such account during each Fiscal Year monies for the account of Landlord (which amounts shall be funds of Landlord for all purposes and shall be reimbursed to Tenant in accordance with Section 3.1.6(f)) in the amount required to be maintained pursuant to the Management Agreement and in accordance with established custom of Manager prior to the Commencement Date. Landlord shall be responsible for the payment of all amounts required to be paid by "Owner" (as defined in the Management Agreement) pursuant to the Management Agreement to fund the FF&E Reserve, including, without limitation, any deficits therein, and for paying for all FF&E necessary for the continued operation of the Facility in accordance with First Class Operating Standards, subject to the provisions of Schedule 22.2. Tenant shall make no expenditure for replacement of
---
FF&E in excess of the amounts in the FF&E Reserve without first obtaining the written approval of Landlord (unless Tenant makes such expenditures from its own funds without any right to reimbursement hereunder). In the event Tenant funds any amounts required to be funded by Landlord for FF&E pursuant hereto or by "Owner" pursuant to the Management Agreement which Landlord has approved, Tenant shall receive a reimbursement in accordance with Section 3.1.6(f) hereof. Any additions to or replacements of furniture, fixtures, and equipment located at the Leased Property shall become part of the FF&E which is owned by Landlord, subject to the limitations set forth in Schedule 22.2 hereof. Throughout the
---
Term of this Lease, Tenant shall, at its sole cost and expense but subject to the terms hereof and of the Management Agreement, cause all of the items of FF&E to be in proper working order and in good condition (ordinary wear and tear excepted).

4.5 Working Capital.

Landlord hereby conveys, transfers, assigns, sells and delivers to Tenant, effective as of the Commencement Date, all Working Capital (as defined below) existing on the Commencement Date (the "Initial Working Capital") at a purchase price equal to the fair market value of such assets (which Landlord and Tenant agree is equal to the book value of such assets on the Commencement Date after taking into account any depreciation as of the Commencement Date). The term "Working Capital" shall mean (a) funds held for use in the day-to-day operation of the Facility's business, including, without limitation, amounts held in change or petty cash funds, deposits, operating bank accounts, pooled concentration or disbursement accounts and payroll accounts, (b) prepaid expenses, (c) Inventories and Fixed Asset Supplies, (d) net receivables due from Manager, less (e) accounts payable, accrued payroll expenses and other accrued expenses and current liabilities related to the Facility. Except as provided in the next sentence, title to the Initial Working Capital so conveyed, transferred, assigned, sold and delivered by Landlord shall be free and clear of any Liens of any nature whatsoever created by Landlord or arising in respect of any obligation of Landlord or arising by reason of any act or omission

of Landlord. Tenant hereby purchases and accepts delivery of the Initial Working Capital and accepts and assumes all obligations with respect thereto, effective as of the Commencement Date, and expressly acknowledges and agrees that (i) it is acquiring the Initial Working Capital subject to the Facility Mortgagee's first-priority lien, if any, on some or all of such Initial Working Capital, and shall acknowledge same in writing to the Facility Mortgagee and execute UCC-1 financing statements confirming same (at Landlord's expense) in accordance with the Facility Mortgagee Agreement, which financing statements shall be prepared and filed by Landlord at Landlord's sole cost and expense, and (ii) the Initial Working Capital shall remain subject to the provisions of the Management Agreement. The purchase price for the Initial Working Capital was paid by Tenant's execution and delivery to Landlord, as of the Commencement Date, of a Working Capital Note and Agreement in the form set forth on Exhibit E hereto (the "Working Capital Note"), in the principal amount of said purchase price. The Working Capital Note provides that such interest is payable from time to time at such time as each payment of Rent is due under Section 3.1.1, and the amount of interest paid under the Working Capital Note on any interest payment date also shall be credited against Rent payable on such date. The Working Capital Note further provides that the principal amount thereof will be payable in full, together with accrued and unpaid interest thereon, upon the expiration or earlier termination of this Lease for any reason (including, without limitation, a termination by the Facility Mortgagee in accordance with Section 20.2 hereof) as follows: Upon such expiration or termination, Tenant will transfer to Landlord, in payment of the principal amount of the Working Capital Note and accrued and unpaid interest thereon, title to all Working Capital then owned by Tenant (the "Final Working Capital"). To the extent that the fair market value of the Final Working Capital (which Landlord and Tenant agree shall be equal to the book value of such assets at such time after taking into account any depreciation as of such date) exceeds the principal amount of the Working Capital Note plus accrued and unpaid interest thereon, Landlord shall pay to Tenant an amount in cash equal to such excess; to the extent that such fair market value is less than the principal amount of the Working Capital Note plus accrued and unpaid interest thereon, Tenant shall pay to Landlord an amount in cash equal to such deficiency.

In the event that this Lease is terminated by the Facility Mortgagee pursuant to the terms of Section 20.2 hereof, Tenant agrees that it shall transfer title to the Final Working Capital (and pay in cash any deficiency due to Landlord pursuant to the Working Capital Note) directly to the Facility Mortgagee or its designee and that it shall look only to Host O.P. for payment of the amount (if any) by which such payment exceeds the principal amount of the Working Capital Note, all in accordance with the terms of the Facility Mortgagee Agreement, and Host O.P. agrees to pay such amount.

Landlord and Tenant agree that, following the sale of the Initial Working Capital, all Working Capital during the Term of this Lease shall be the property of Tenant (and not Landlord) for all purposes (subject, however, to the Liens hereinafter referred to in this paragraph), and neither Landlord nor Tenant shall at any time take a position (in its books and records or otherwise) or make an assertion inconsistent therewith. Tenant has granted Landlord a security interest in all such Working Capital pursuant to Section 7.2 hereof. Tenant acknowledges that Landlord has pledged and assigned to the Facility Mortgagee, as additional security

for Landlord's obligations under the loan secured by the Facility Mortgage, (or will pledge and assign to a Facility Mortgagee, as additional security for Landlord's obligations under a loan to be secured by a Facility Mortgage), the Working Capital Note and Landlord's rights and interest in respect of this Lease, including all Landlord Liens with respect to any and all Tenant's Personal Property, including, without limitation, all Working Capital owned by Tenant during the Term of this Lease, securing Tenant's obligations hereunder.

ARTICLE 5
MAINTENANCE AND REPAIRS; SURRENDER

5.1 Maintenance and Repair.

5.1.1 Tenant's Obligations.

Except as otherwise expressly provided in this Lease, and except for conditions caused by the gross negligence or willful misconduct of Landlord, its employees, agents or independent contractors (which terms shall not be deemed to include Manager with respect to actions or inactions of Manager during the Term of this Lease), Tenant shall, at its sole cost and expense, keep the Leased Property and all private roadways, sidewalks and curbs appurtenant thereto (and Tenant's Personal Property) in good order and repair, ordinary wear and tear excepted (whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of the Leased Property or Tenant's Personal Property, or any portion thereof), and shall promptly make all necessary and appropriate repairs and replacements thereto of every kind and nature (excluding Capital Expenditures), whether interior or exterior, structural or nonstructural, ordinary or extraordinary, foreseen or unforeseen, necessary for the Primary Intended Use (concealed or otherwise). Notwithstanding anything set forth herein to the contrary, unless the need for compliance with this Section 5.1.1 is caused by Tenant's negligence or willful misconduct or that of its employees or agents (including Manager, but only to the extent that Tenant is obligated to indemnify Landlord and Landlord Indemnitees for Manager's acts or omissions pursuant to Section 4.3.3) and is not otherwise covered by insurance, Tenant shall not be responsible for any necessary repair of Existing Conditions relating to Hazardous Materials, including, without limitation, those set forth and described on Schedule 5.1.1 hereto, which are Landlord

---

Obligations. All repairs shall be made in a good, workmanlike and first-class manner, in accordance with all Legal Requirements. Tenant shall not take or omit to take any action, the taking or omission of which materially impairs the value or the usefulness of the Leased Property or any part thereof for the Primary Intended Use. Tenant's obligations under this Section 5.1.1 shall be limited, in the event of any Casualty or Condemnation involving the Leased Property, as set forth in Articles 10 and 11. Tenant's obligations under this Section 5.1.1 with respect to FF&E are subject to the provisions of Section 4.4 hereof. Tenant shall have the non-exclusive right to prosecute claims against Landlord's predecessors-in-interest (other than any Affiliates of Landlord), contractors, subcontractors and suppliers for breach of any representation or warranty or for any latent defects in the Leased Property, unless Landlord is already diligently pursuing such claims.

5.1.2 Landlord Obligations.

(a) Landlord shall be obligated to pay the actual costs of any items that are classified as Capital Expenditures and are approved by Landlord as well as the actual costs of any necessary repairs (i) of Existing Conditions relating to Hazardous Materials or (ii) resulting from the gross negligence or willful misconduct of Landlord, its employees, agents or independent contractors (which terms shall not be deemed to include Manager with respect to acts or omissions of Manager during the Term of this Lease). Landlord shall not, however, except as expressly set forth herein or otherwise required under the Management Agreement or the Consent and Assignment (including, without limitation, as set forth in this Section 5.1.2 and in Sections 4.3.2, 4.4, 5.1.1, 9.9 and 21.3.3 and in Article 6 hereof), be required to build or rebuild any improvement on the Leased Property, or to make any repairs, replacements, alterations, restorations, or renewals of any nature or description to the Leased Property, whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen, or to make any expenditure whatsoever with respect thereto, or to maintain the Leased Property in any way. Landlord shall have the right to give, record and post, as appropriate, notices of nonresponsibility under any mechanic's lien laws now or hereafter existing.

(b) If, at any time or from time to time, the Management Agreement requires that funds be disbursed for repairs, maintenance, renovations or replacements at or to the Leased Property, or, pursuant to the terms of this Lease (including, without limitation, Section 4.4 hereof), Tenant is required to make any expenditures in connection with any repair, maintenance or renovation with respect to the Leased Property which constitute Landlord Obligations, and the amount of such disbursements or expenditures exceeds the amount on deposit in the FF&E Reserve, Tenant shall furnish Landlord with reasonable detail regarding the nature of the required repair, renovation or replacement, the estimated cost thereof and such other information with respect thereto as Landlord may reasonably require. Landlord shall, within ten (10) Business Days after such Notice, subject to and in accordance with the applicable provisions of Article 6, disburse such required funds to Tenant (or, if Tenant shall so elect, or if an Event of Default shall then exist hereunder, directly to Manager or any other Person performing the required work).

5.2 Tenant's Personal Property.

Tenant may (and shall as provided hereinbelow), at its expense, install, affix or assemble or place on the Facility any items of Tenant's Personal Property, and Tenant may, subject to Section 7.2 and the conditions set forth below, remove and replace the same at any time in the ordinary course of business. Tenant shall provide and maintain throughout the Term all such Tenant's Personal Property as shall be necessary in order to operate the Facility in compliance in all material respects with applicable Legal Requirements and Insurance Requirements and otherwise in accordance with customary practice in the industry for such Primary Intended Use.

Subject to Section 4.5 hereof, all Tenant's Personal Property (except that removed and replaced in the ordinary course of business as permitted above, but including supplies and inventory that are equivalent, on an aggregate basis, in amount and value

similar to that reasonably established for use by the Facility in the immediately preceding Lease Year) shall remain at the Leased Property at the expiration or earlier termination of this Lease without the necessity of any payment by Landlord to Tenant and without any obligation to account therefor.

If Tenant acquires an interest in any material item of Tenant's Personal Property (other than motor vehicles) on, or in connection with, the Leased Property that belongs to anyone other than Tenant, Tenant shall use its commercially reasonable efforts to require the agreement permitting such use to provide that Landlord or its designee may assume Tenant's rights under such agreement upon management or operation of the applicable Facility by Landlord or its designee.

5.3 Surrender.

(a) Condition of Leased Property Upon Surrender. Upon the expiration or sooner termination of this Lease, Tenant shall vacate and surrender the Leased Property to Landlord in the condition in which the Leased Property was on the Commencement Date, ordinary wear and tear excepted, except as repaired, rebuilt, restored, altered or added to as permitted or required by the provisions of this Lease, ordinary wear and tear excepted. Together therewith Tenant shall surrender to Landlord any and all records and documents related to the Leased Property and Tenant's Personal Property (but not, subject to Section 5.3(d) hereof, documents primarily related to Tenant's business operated therein).

(b) [Intentionally Omitted.]

(c) Membership Contracts. Upon expiration or earlier termination of this Lease, Tenant shall assign to Landlord any membership contracts relating to golf courses, spas or other facilities in which there are nonequity interests entered into by Tenant during the Term, and Landlord agrees to assume the obligations of Tenant under any such membership contracts arising from and after the date of expiration or earlier termination of this Lease.

(d) Transition Procedures. Tenant shall cooperate in good faith to provide access and information to any prospective purchaser or tenant of the Leased Property that may acquire the Leased Property or lease it upon the expiration or earlier termination of the Term, provided that Landlord shall use its reasonable efforts to cause such prospective purchaser or tenant to enter into a confidentiality agreement with respect thereto reasonably acceptable to Tenant. Upon any expiration or earlier termination of the Term, Landlord and Tenant shall do the following and, in general, shall cooperate in good faith to effect an orderly transition of the management or lease of the Facility (and the provisions of this Section 5.3(d) shall survive the expiration or earlier termination of this Lease until they have been fully performed, up to a maximum period of one (1) year after such expiration or termination, and nothing contained herein shall limit Landlord's rights and remedies under this Lease if such termination occurs as the result of an Event of Default):

(i) Upon the expiration or earlier termination of the Term, Tenant shall use its commercially reasonable efforts (A) to transfer to Landlord or Landlord's designee all licenses, operating permits and other governmental authorizations and all contracts with governmental or quasi-governmental entities, that may be necessary for the operation of the Facility (collectively, "Licenses"), to the extent transferable or (B) if such transfer is prohibited by law or Landlord otherwise elects, to cooperate with Landlord or Landlord's designee in connection with the processing by Landlord or Landlord's designee of any applications for all Licenses; provided, in either case, that the costs and expenses of any such transfer or the processing of any such application shall be paid by Landlord or Landlord's designee.

(ii) Tenant shall assign or cause to be assigned to Landlord or Landlord's designee simultaneously with the termination of this Lease, and the assignee shall assume, all leases, contracts, concession agreements and other agreements in effect with respect to the Facility then in Tenant's name; provided, however, that any leases of Excess FF&E shall be subject to the provisions of Schedule 22.2 hereof, and provided further, that Landlord shall not be obligated to assume and may reject any such contracts or agreements requiring the "Owner's" approval under the Management Agreement which were entered into subsequent to the date hereof and were not previously approved or deemed approved by Landlord. In the event Landlord declines to assume or reject any such contracts, agreements and/or leases, the contracts, agreements and/or leases so rejected shall not be assigned or shall be deemed reassigned and shall remain the property and responsibility of Tenant. In no event shall Landlord (or its designee) have any liability under such contracts for obligations or liabilities accruing under such contracts after the Commencement Date and prior to the date of such assumption by such party.

(iii) To the extent that Landlord has not already received copies thereof, copies of all books and records (including computer records) for the Facility kept by (or available to) Tenant shall be promptly delivered or made available for inspection and copying to Landlord or Landlord's designee.

(iv) Subject to Section 4.5 hereof, Tenant shall be entitled to retain all cash, bank accounts and house banks, and to collect all Gross Revenues and accounts receivable accrued through the termination date of this Lease. Tenant shall be responsible for the payment of Rent, all operating expenses of the Facility as provided in this Lease and all other obligations of Tenant accrued under this Lease as of the termination date, and Landlord shall be responsible for all operating expenses of the Facility accruing after the termination date.

(v) So long as termination is not the result of an Event of Default, Landlord shall reimburse Tenant for its reasonable expenses in connection with any cooperation with a prospective purchaser or tenant hereunder.

5.4 Encroachments, Restrictions, Etc.

If any portion of the Facility shall, at any time, encroach upon any property, street or right-of-way adjacent to the Leased Property, or shall violate the agreements or conditions contained in any lawful restrictive covenant or other agreement affecting the Leased Property, or any part thereof, or shall impair the rights of others under any easement or right-of-way to which the Leased Property is subject, upon the request of Landlord (but only as to any encroachment, violation or impairment that is not a Permitted Lien) or of any Person affected by any such encroachment, violation or impairment, Tenant shall, at Tenant's sole cost and expense (except to the extent that the encroachment, violation or impairment existed prior to the Commencement Date or was the result of the act or omission of Landlord or its employees, agents (excluding Manager except for Manager's acts or omissions in respect of Landlord Obligations) or independent contractors), subject to its right to contest the existence of any encroachment, violation or impairment in accordance with the provisions of Article 8, either (a) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Landlord or Tenant or (b), subject to Section 6.1, make such changes in the Facility and take such other actions as are reasonably practicable to remove such encroachment and to end such violation or impairment, including, if necessary, the alteration of the Facility and, in any event, take all such actions as may be necessary in order to enable the continued operation of the Facility for its Primary Intended Use substantially in the manner and to the extent the Facility was operated prior to the assertion of such violation, impairment or encroachment. Any such alteration shall be made in conformity with the applicable requirements of this Article 5. Tenant's obligations under this Section 5.4 shall be in addition to and shall in no way discharge or diminish any obligation of any insurer under any policy of title or other insurance.

5.5 Landlord to Grant Easements, Etc.

Landlord shall from time to time, at the request of Tenant and at Landlord's sole cost and expense, (a) grant easements and other rights in the nature of easements with respect to the Leased Property to third parties, (b) release existing easements or other rights in the nature of easements which are for the benefit of the Leased Property, (c) dedicate or transfer unimproved portions of the Leased Property for road, highway or other public purposes, (d) execute petitions to have the Leased Property annexed to any municipal corporation or utility district, (e) execute amendments to any covenants and restrictions affecting the Leased Property and (f) execute and deliver to any Person any instrument appropriate to confirm or effect such grants, release, dedications, transfers, petitions and amendments (to the extent of its interests in the Leased Property); provided, however, that Landlord shall have first determined, in its reasonable discretion, that such grant, release, dedication, transfer, petition or amendment is not detrimental to the operation of the Leased Property for its Primary Intended Use and is beneficial to the value of the Leased Property and is not in violation of the Management Agreement, any Superior Lease or any Superior Mortgage, and Landlord shall have received within five (5) Business Days of its request an Officer's Certificate confirming such determination, together with such additional information as Landlord may request. Landlord agrees to obtain Tenant's prior written approval, which shall not be unreasonably withheld,

conditioned or delayed, as to any recorded covenants, conditions and restrictions which would affect the use or operation of the Leased Property as it is then being used or operated by Tenant in accordance with this Lease (it being agreed that the provisions of a Facility Mortgage or a ground lease shall not be deemed to constitute covenants, conditions and restrictions subject to this sentence).

ARTICLE 6
CAPITAL EXPENDITURES, ETC.

6.1 Capital Expenditures.

It shall be Landlord's obligation (and a Retained Obligation) to approve and fund the cost of any Capital Expenditures, including, without limitation, any Capital Expenditures required under the Management Agreement, in accordance with the terms of the Management Agreement. Except as otherwise hereinafter provided, Tenant shall not construct or install Capital Expenditures on the Leased Property without obtaining Landlord's prior written consent. Landlord's approval of the Capital Portion of the Annual Budget shall constitute approval of the Capital Expenditures described therein. If Owner's consent is required under the Management Agreement with respect to any Capital Expenditure not covered in the Capital Portion of the Annual Budget, prior to commencing construction of any Capital Expenditure Tenant shall submit to Landlord, in writing, a proposal setting forth, in reasonable detail, any proposed Capital Expenditure and shall provide to Landlord such plans and specifications, permits, licenses, contracts and other information concerning the proposed Capital Expenditure as Landlord may reasonably request. Without limiting the generality of the foregoing, such proposal shall indicate the approximate projected cost of constructing such Capital Expenditure and the use or uses to which it will be put. Tenant shall not fund or otherwise finance the cost of any construction of any Capital Expenditure without the prior written consent of Landlord, which consent may be withheld by Landlord in Landlord's sole discretion (unless Landlord has declined to fund such Capital Expenditure, Manager has consented to such Capital Expenditure and Tenant's financing of such Capital Expenditure would not result in the imposition of a Lien on any portion of the Leased Property or the Capital Expenditure, in which event Landlord shall not unreasonably withhold its consent). Any Capital Expenditures funded or financed by Tenant shall, upon the expiration or sooner termination of this Lease, pass to and become the property of Landlord, free and clear of all encumbrances other than Permitted Liens. Notwithstanding the foregoing, Landlord's consent shall not be required in connection with any Capital Expenditures (i) with respect to which immediate action is required in order to comply with Legal Requirements or to prevent or remedy Emergency Situations or (ii) not requiring the "Owner's" consent under the Management Agreement; it being the intention hereof that the consent requirements hereunder shall be consistent with the "Owner" consent requirements with respect to Capital Expenditures under the Management Agreement.

6.2 [Intentionally Omitted.]

6.3 Cooperation by Tenant.

If Landlord shall, in Landlord's sole discretion, elect to finance any proposed Capital Expenditure, or if Landlord is otherwise required to do so pursuant to the terms of the Management Agreement and the Retained Obligations, Tenant shall provide Landlord with such information as Landlord may from time to time reasonably request.

6.4 Alterations.

Subject to the provisions of the Management Agreement, Tenant shall have the right, at Tenant's sole cost and expense, to make additions, modifications or improvements to the Leased Property which are not Capital Expenditures ("Alterations") and which have a total cost of completion of less than or equal to (a) $10,000, as to any individual Alteration, or (b) $50,000, as to all Alterations, in the aggregate, over a twelve-month period, from time to time as Tenant, in its discretion, may deem desirable for the Primary Intended Use, provided that any such Alteration will not materially alter the character or purpose or materially detract from the value, operating efficiency or revenue-producing capability of the Leased Property or adversely affect the ability of Tenant to comply with the provisions of this Lease, and, without limiting the foregoing, will not violate any Legal Requirement or Insurance Requirement applicable to the Leased Property. Any Alteration estimated to exceed the applicable limits set forth above shall be subject to Landlord's prior approval and the terms set forth in Section 6.1. All such Alterations shall, upon expiration or earlier termination of this Lease, pass to and become the property of Landlord, free and clear of all liens and encumbrances, other than Permitted Liens.

6.5 Salvage.

All materials which are scrapped or removed in connection with the making of either Capital Expenditures, Alterations, or repairs required by Article 5 shall be the property of the party that paid for such work.

ARTICLE 7
LIENS

7.1 Prohibition on Liens.

Tenant shall not, directly or indirectly, create or allow to remain and shall promptly discharge, at its expense, any Lien on the Leased Property, Tenant's leasehold interest therein, any Tenant's Personal Property now or hereafter owned, any Excess FF&E owned by Tenant, any Excess FF&E Leasehold Interest, Working Capital, or the Rent, other than (a) Permitted Liens, (b) liens for Real Estate Taxes and other Landlord Obligations, (c) subleases permitted by Article 16, (d) liens for Impositions or for sums arising from the application of Legal Requirements so long as the same (i) are not yet delinquent or (ii) are being contested in accordance with Article 8, (e) liens of mechanics, laborers, materialmen, suppliers or vendors incurred in the ordinary course of business

that are not yet delinquent or are for sums that are being contested in accordance with Article 8, (f) any Facility Mortgage or other liens which are the responsibility of Landlord pursuant to the provisions of Article 20, (g) liens first arising prior to the Commencement Date, and (h) Landlord Liens. Notwithstanding the foregoing, but subject to all other applicable terms and conditions of this Lease, including without limitation the provisions hereof regarding a Change in Control, a pledge of the ownership interests in TRS or Host O.P. to secure bona fide Indebtedness shall not be deemed a violation of this Section 7.1, provided that a subsequent foreclosure or other realization upon such pledge shall be subject to the Change in Control provisions of this Lease.

All materialmen, contractors, artisans, mechanics and laborers and other persons contracting with Tenant with respect to the Leased Property, or any part thereof, are hereby charged with notice that Liens are expressly prohibited and that they must look solely to Tenant to secure payment for any work done or material furnished for Alterations or Capital Expenditures by Tenant or for any other purpose during the Term.

Tenant hereby acknowledges and agrees that, at all times while a Facility Mortgage is in effect, all Excess FF&E acquired by Tenant, directly or indirectly, from Landlord or leased by Tenant in accordance with Schedule 22.2 hereof shall be and remain subject to a first priority Lien in favor of the Facility Mortgagee. Tenant further acknowledges that Landlord has assigned and pledged (or may assign or pledge in the future) to the Facility Mortgagee, as additional security for Landlord's obligations under the loan secured by the Facility Mortgage, Landlord's rights and interests under the Landlord Liens with respect to any and all Tenant's Personal Property, Working Capital and Excess FF&E Leasehold Interest now owned or hereafter acquired by Tenant at any time while the Facility Mortgage remains in effect.

7.2 Landlord Lien.

In addition to any statutory landlord's lien and in order to secure (a) payment of the Rent and all other sums payable to Landlord hereunder by Tenant, (b) payment of the amounts owed under the Working Capital Note, (c) payment of any loss, cost or damage that Landlord may suffer by reason of Tenant's breach of this Lease, and (d) the performance of all of Tenant's other obligations hereunder and under the Working Capital Note, Tenant and Landlord, simultaneously with the execution of the Original Lease, entered into a Security Agreement (the "Security Agreement") whereby Tenant granted unto Landlord a security interest in, and an express contractual lien upon, which grant Tenant hereby reaffirms, as to (i) Tenant's Personal Property (other than Working Capital), and all proceeds therefrom (subject to any Permitted Liens), (ii) any Excess FF&E owned by Tenant, (iii) any Excess FF&E Leasehold Interest of Tenant, and (iv) any Working Capital of Tenant (collectively, together with any statutory lien rights, "Landlord Liens"). Tenant's Personal Property shall not be removed from the Leased Property by Tenant at any time when a Default (with respect to any monetary obligation of Tenant to Landlord hereunder and under the Working Capital Note) or an Event of Default has occurred and is continuing except as otherwise permitted pursuant to Section 5.2. In addition, Tenant granted unto Landlord at the time of the Original Lease and hereby reaffirms its grant of a security interest in those contracts described in Section 5.3(d)(ii) hereof.

Upon Landlord's request, Tenant shall execute and deliver to Landlord financing statements in form sufficient to perfect the security interest of Landlord in (subject to the Facility Mortgagee's first-priority Lien thereon) (x) Tenant's Personal Property and the proceeds thereof, (y) the contracts described in Section 5.3(d)(ii) hereof, in accordance with the provisions of the applicable laws of the State, and (z) any and all Working Capital, Excess FF&E and Excess FF&E Leasehold Interests, in each case owned by Tenant from time to time during the Term of this Lease.

ARTICLE 8
PERMITTED CONTESTS

Tenant shall have the right to contest the amount or validity of any Imposition, Legal Requirement, Insurance Requirement, Environmental Obligation, lien, attachment, levy, encumbrance, charge or claim (collectively, "Claims") as to the Leased Property, by appropriate legal proceedings, conducted in good faith and with due diligence, provided that (a) the foregoing shall in no way be construed as relieving, modifying or extending any obligation of Tenant provided for in this Lease to pay any Claims as finally determined, (b) such contest, or the maintenance of any Lien during such contest, shall not cause Landlord or Tenant to be in default under any mortgage, deed of trust or other agreement encumbering the Leased Property or any interest therein or result in a Lien attaching to the Leased Property unless Tenant shall within ten (10) days thereafter, have such Lien released of record or deliver to Landlord a bond or other security reasonably satisfactory to Landlord, which shall be in form, amount, and issued by a surety reasonably satisfactory to Landlord, indemnifying Landlord against all costs and liabilities resulting from such Lien and the foreclosure or attempted foreclosure thereof, (c) no part of the Leased Property nor any Rent therefrom shall be in any immediate danger of sale, forfeiture, attachment or loss, and (d) Tenant shall indemnify and hold harmless Landlord from and against any cost, claim, damage, penalty or reasonable expense, including reasonable attorneys' fees, incurred by Landlord in connection therewith or as a result thereof. Tenant shall be entitled to any refund of any Claims and such charges and penalties or interest thereon which have been paid by Tenant or paid by Landlord and for which Landlord has been fully reimbursed by Tenant. If Tenant shall fail (x) to pay any Claims when finally determined, (y) to provide reasonable security therefor, or (z) to prosecute any such contest diligently and in good faith, Landlord may, upon reasonable notice to Tenant (which notice may be oral and shall not be required if Landlord shall reasonably determine that the same is not practicable), pay such charges, together with interest and penalties due with respect thereto, and Tenant shall reimburse Landlord therefor, upon demand, as Additional Charges. Landlord agrees to join in any such proceedings if required legally to prosecute such contest, provided that Landlord shall not thereby be subjected to any liability or cost therefor (including, without limitation, for the payment of any costs or expenses in connection therewith).

ARTICLE 9
INSURANCE AND INDEMNIFICATION

9.1 General Insurance Requirements.

At all times during the Term and at any other time Tenant shall be in possession of the Leased Property, the Leased Property shall be insured against the risks and in the amounts described below. This insurance shall be written by companies authorized to issue insurance in the State. The policies must name the party obtaining the policy as the insured and the other party, the Manager and any Facility Mortgagee(s) as additional named insureds and/or (in the case of any Facility Mortgagees) as loss payees. Losses shall be payable to Landlord or Tenant as provided in Article 10 of this Lease. Any loss adjustment for coverages insuring both parties shall require the written consent of Landlord and Tenant, each acting reasonably and in good faith. The policies on the Leased Property (including the Facility, Fixtures and FF&E owned by Landlord), and on Tenant's Personal Property, shall, subject to Section 9.1(k), satisfy the requirements of any ground lease, mortgage, security agreement or other financing lien affecting the Leased Property (provided, however, that any insurance coverage maintained with respect to the Leased Property by Manager or Landlord in accordance with the Management Agreement shall be deemed to satisfy such requirements so long as the Management Agreement is in effect) and at a minimum shall include:

(a) "All Risk" property insurance, including insurance against loss or damage by fire, vandalism and malicious mischief, explosion of steamboilers, pressure vessels or other similar apparatus, now or hereafter installed in the Facility, extended coverage perils, earthquake (if available at commercially reasonable rates) and all physical loss perils insurance, including, but not limited to, sprinkler leakage, in an amount equal to one hundred percent (100%) of the then full Replacement Cost thereof (as defined in Section 9.2), with the usual extended coverage endorsements, including a Replacement Cost Endorsement and Builder's Risk Coverage during the continuance of any construction at the Leased Property;

(b) Loss of rent insurance (on the "Special Form") in the minimum amount of one (1) year of Minimum Rent and Percentage Rent (based on the last twelve (12) months in which the Facility was operated for its Primary Intended Use) for the benefit of Landlord, and business interruption insurance on the "Special Form" in the amount of one year of projected net profit of Tenant from the Facility (exclusive of collection costs and any operating expenses that are considered by the applicable insurance company to be non-continuing as a result of any Casualty), for the benefit of Tenant;

(c) Flood (if the Facility is located in whole or in part within an area identified as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968, as amended, or the Flood Disaster Protection Act of 1973, as amended (or any successor acts thereto)) and such other hazards and in such amounts as may be customary for comparable properties in the area, said coverage to be in an amount equal to the lesser of the full Replacement Cost of the Facility or the maximum amount available;

(d) Comprehensive general liability insurance, including bodily injury, property damage, and innkeeper's liability (including broad form contractual liability, fire legal liability and completed operations coverage) having policy limits as to claims with respect to the Leased Property of at least One Million Dollars ($1,000,000) per occurrence, Two Million Dollars ($2,000,000) aggregate per location, provided that such limits shall be modified to conform to any required underlying statutory coverage, and Umbrella coverage shall be provided having limits of One Hundred Million Dollars ($100,000,000) per occurrence and in the aggregate, and attaching in excess of policy limits as to general liability, where applicable, and employer's liability coverage, covering each of the following: bodily injury, death, or property damage liability per occurrence, personal injury, general aggregate, products and completed operations, and "all risk legal liability" (including liquor law or "dram shop" liability, if liquor or alcoholic beverages are served on the Leased Property) with respect to Landlord and Tenant;

(e) To the extent applicable at the Facility, comprehensive form automobile liability insurance for owned, non-owned and hired vehicles in the amount of $1,000,000;

(f) Fidelity bonds or blanket crime policies with limits and deductibles as may be reasonably determined by Landlord, covering Tenant's employees in job classifications normally bonded under prudent hotel management practices in the United States or otherwise required by law;

(g) To the extent applicable at the Facility, garagekeeper's legal liability insurance covering both comprehensive and collision-type losses with a limit of liability of $1,000,000 for any one occurrence;

(h) Insurance coverage for claims by employees of Manager for wrongful termination, discrimination or sexual harassment;

(i) Worker's compensation insurance coverage for all persons employed by Tenant on the Leased Property with statutory limits and otherwise with limits of and provisions in accordance with Legal Requirements, and employer's liability insurance having a limit of $500,000;

(j) To the extent applicable at the Facility, safe deposit box legal liability insurance covering property or guests while in a safe deposit box on the Leased Property for which Tenant is legally responsible with a limit of not less than $100,000 in any one occurrence; and

(k) Such additional insurance and endorsements (and/or increased amounts of insurance hereinabove required) as may be reasonably required, from time to time, by Landlord, any Facility Mortgagee or any rating agency, or any existing or future ground lessor, provided that any incremental cost incurred as a result of such additional coverage shall be borne by Landlord.

9.2 Responsibility for Insurance.

Tenant shall obtain or cause to be obtained the insurance and pay the premiums for the coverages described in Sections 9.1(d) through (j) and for that portion of the premium for the coverage described in Section 9.1(b) that is attributable to business interruption insurance, and Landlord shall obtain the insurance and pay the premiums for the coverages described in Sections 9.1(a) through (c) and (k) (excluding that portion of the premium for the coverage described in Section 9.1(b) that is attributable to business interruption insurance that is for the benefit of Tenant). The party responsible for the premium for any insurance coverage shall also be responsible for any and all deductibles and self-insured retentions in connection with such coverages. In the event that either party can obtain comparable insurance coverage required to be carried by the other party from comparable insurers and at a cost significantly less than that at which such other party can obtain such coverage, the parties shall cooperate in good faith to obtain such coverage at the lower cost and shall allocate the premiums therefor in accordance with the provisions of the first sentence of this Section 9.2.

Notwithstanding anything in this Article 9 to the contrary, so long as the Management Agreement is in full force and effect and Manager is maintaining the insurance required thereunder, Landlord's and Tenant's obligations to maintain the insurance required under this Article 9 shall be deemed to have been met (provided, that the costs therefor shall be allocated between Landlord and Tenant in the manner contemplated by the first sentence of this Section 9.2).

9.3 Replacement Cost.

"Replacement Cost" as used herein, shall mean the actual replacement cost of the Leased Property requiring replacement from time to time, including an increased cost of construction endorsement, if available, and the cost of debris removal less exclusions provided in the standard form of fire insurance policy. In the event either party believes that the then full Replacement Cost has increased or decreased at any time during the Term, such party, at its own cost, shall have the right to have such full Replacement Cost redetermined by an independent accredited appraiser approved by the other, which approval shall not be unreasonably withheld or delayed. The party desiring to have the full Replacement Cost so redetermined shall forthwith, on receipt of such determination by such appraiser, give written notice thereof to the other. The determination of such appraiser shall be final and binding on the parties hereto, and Landlord shall forthwith conform the amount of the insurance carried to the amount so determined by the appraiser.

9.4 Waiver of Subrogation.

Landlord and Tenant agree that (insofar as and to the extent that such agreement may be effective without invalidating or making it impossible to secure insurance coverage from responsible insurance companies doing business in the State) with respect to any loss covered by insurance then being carried by Landlord or Tenant, respectively, the party carrying such insurance and suffering said loss releases the other of and from any and all claims with respect to such loss; and they further agree that their

respective insurance companies shall have no right of subrogation against the other on account thereof, even though extra premium may result therefrom.

9.5 Form Satisfactory, Etc.

Subject to the second paragraph of Section 9.2, all insurance policies and endorsements required pursuant to this Article 9 shall be fully paid for, nonassessable and, except for umbrella and flood coverage, shall contain such provisions and expiration dates and be in such form and amounts and issued by insurance carriers authorized to do business in the State, having a general policy holder's rating of A/VI in Best's latest rating guide (or such other higher rating or such other customarily used rating agency as may be required by the Facility Mortgagee, provided that any additional expense associated with such higher ratings shall be borne by Landlord), and otherwise satisfactory to Landlord and Tenant. Without limiting the foregoing, such policies shall include only deductibles reasonably approved by Landlord. The party responsible for obtaining any policy shall deliver policies or certificates thereof to the other party prior to their effective date (and, with respect to any renewal policy, thirty (30) days prior to the expiration of the existing policy), and, in the event either party shall fail to effect such insurance as herein required, to pay the premiums therefor or to deliver such policies or certificates to the other party or the Facility Mortgagee at the times required, the other party shall have the right, but not the obligation, after ten (10) days' written notice to the responsible party, to acquire such insurance and pay the premiums therefor, which amounts shall be reimbursed by the responsible party, together with interest accrued thereon at the Overdue Rate from the date such payment is made until the date repaid. All such policies shall provide the non-responsible party (and the Facility Mortgagee and Manager, if required by the same) thirty (30) days' prior written notice of any material modification, expiration or cancellation of such policy.

9.6 Blanket Policy.

Notwithstanding anything to the contrary contained in this Article 9, Tenant's and Landlord's obligations to maintain the insurance herein required may be brought within the coverage of a so-called blanket policy or policies of insurance, provided that, except as otherwise approved by the other party in writing, (a) the coverage thereby afforded will not be reduced or diminished from that which would exist under a separate policy meeting all other requirements of this Lease, and (b) the requirements of this Article 9 (including an appropriate allocation of the costs for such blanket policy between Landlord and Tenant in a manner consistent with the first sentence of Section 9.2) are otherwise satisfied.

9.7 No Separate Insurance.

Neither Landlord nor Tenant shall take out separate insurance concurrent in form or contributing in the event of loss with that required by this Article 9, or increase the amount of any existing insurance by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of such insurance are included therein as additional insureds and the loss is payable under such insurance in the same manner as losses are payable under the insurance required to be carried pursuant to

this Lease. In the event either shall take out any such separate insurance or increase any of the amounts of the then existing insurance, it shall give the other party prompt Notice thereof.

9.8 General Indemnification of Landlord by Tenant.

Except as otherwise provided in Sections 4.3.2, 5.1, 9.9, 14.1 and 21.3.3, and except for liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees) arising from Landlord's or any other Landlord Indemnitee's or their respective agents' (including Manager, but only with respect to Manager's acts or omissions with respect to Landlord Obligations) willful misconduct or gross negligence, Tenant shall protect, indemnify and hold harmless Landlord and each Landlord Indemnitee for, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and reasonable expenses (including, without limitation, reasonable attorneys' fees), to the maximum extent permitted by law, and notwithstanding the existence of any insurance provided for herein, but subject to Section 9.4 hereof, and without regard to the policy limits of any such insurance, imposed upon or incurred by or asserted against Landlord or any Landlord Indemnitee by reason of:

(i) liabilities arising after the Commencement Date and during the Term under any leases, contracts, concession agreements or other agreements either (A) entered into by Tenant or any Tenant Indemnitee, or their respective agents (including Manager, except with respect to Manager's acts or omissions with respect to Landlord Obligations), with respect to the Facility, or (B) assigned to Tenant pursuant to Section 2.2(a) (except liabilities arising out of agreements described in this clause (B) for any employee claims by employees of Manager for wrongful termination, discrimination or sexual harassment,

(ii) the gross negligence or willful misconduct of Tenant or any other Tenant Indemnitee, or their respective agents (including Manager, except with respect to Manager's acts or omissions with respect to Landlord Obligations), including any such gross negligence or willful misconduct giving rise to any employee claims by employees of Manager for wrongful termination, discrimination or sexual harassment,

(iii) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Leased Property or adjoining sidewalks or rights of way on or after the Commencement Date and during the Term, including, without limitation, any claims under liquor liability, "dram shop" or similar laws,

(iv) any litigation, proceeding (other than Condemnation proceedings) or claim by governmental entities or other third parties to which Landlord or any Landlord Indemnitee is made a party or participant or which is otherwise asserted against Landlord or any Landlord Indemnitee, relating to the Leased Property or Tenant's Personal Property or any use, misuse, non-use, condition, management, maintenance, or repair thereof, the occurrence giving rise to which litigation, proceeding or claim occurs on or after the Commencement Date and during the Term,

(v) any Impositions that are the obligations of Tenant to pay pursuant to the applicable provisions of this Lease, and

(vi) any failure on the part of Tenant or anyone claiming under Tenant to perform or comply with any of the terms of this Lease.

Tenant shall pay all amounts payable under this Section 9.8 within ten (10) days after demand therefor and, if not timely paid, such amounts shall bear interest at the Overdue Rate from the date of determination to the date of payment. Tenant, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Landlord and shall not be responsible for any duplicate attorneys' fees incurred by Landlord or may compromise or otherwise dispose of the same, with Landlord's prior written consent (which consent may not be unreasonably withheld or delayed). In the event Landlord shall unreasonably withhold or delay its consent, Tenant shall not be liable pursuant to this Section 9.8 for any incremental increase in costs or expenses resulting therefrom. The obligations of Tenant under this Section 9.8 are in addition to the obligations set forth in Section 4.3.3 and 21.3.3 and shall survive the termination or expiration of this Lease.

Nothing in this Section 9.8 is intended to limit Tenant's right to assert a claim or defense against Landlord based upon the obligations imposed upon Landlord pursuant to Sections 4.3, 5.1, 9.9, 14.1 and 21.3.3.

9.9 General Indemnification of Tenant by Landlord.

Except for liabilities arising from Tenant's or any other Tenant Indemnitee's, or their respective agents' (including Manager, except with respect to Manager's acts or omissions with respect to Landlord Obligations) willful misconduct or gross negligence, Landlord shall protect, indemnify and hold harmless Tenant and each Tenant Indemnitee for, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and reasonable expenses (including, without limitation, reasonable attorneys' fees), to the maximum extent permitted by law, and notwithstanding the existence of any insurance provided for herein, but subject to Section 9.4 hereof, and without regard to the policy limits of any such insurance, imposed upon or incurred by or asserted against Tenant or any Tenant Indemnitee by reason of:

(i) liabilities arising at any time under any leases, contracts, concession agreements or other agreements with respect to the Facility, except liabilities arising after the Commencement Date and during the Term under any leases, contracts, concession agreements or other agreements either (a) entered into during the Term by Tenant or any other Tenant Indemnitee, or their respective agents (including Manager, except with respect to Manager's acts or omissions with respect to Landlord Obligations) with respect to the Facility, or (b) assigned to Tenant pursuant to Section 2.2(a),

(ii) the gross negligence or willful misconduct of Landlord or any other Landlord Indemnitee, or their respective agents (including Manager, but only with respect to Manager's acts or omissions with respect to Landlord Obligations),

(iii) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Leased Property or adjoining sidewalks or rights of way

prior to the Commencement Date or after expiration or earlier termination of the Term, including, without limitation any claims under liquor liability, "dram shop" or similar laws,

(iv) any litigation, proceeding (other than Condemnation proceedings) or claim by governmental entities or other third parties to which Tenant or any Tenant Indemnitee is made a party or participant or which is otherwise asserted against Tenant or any Tenant Indemnitee, relating to the Leased Property or any use, misuse, non-use, condition, management, maintenance, or repair thereof, the occurrence giving rise to which litigation, proceeding or claim occurs prior to the Commencement Date or after the expiration or earlier termination of the Term,

(v) any Landlord Obligations, and

(vi) any failure on the part of Landlord or anyone claiming under Landlord (including Manager, but only with respect to Manager's acts or omissions with respect to Landlord Obligations) to perform or comply with any of the terms of this Lease.

Landlord shall pay all amounts payable under this Section 9.9 within ten (10) days after demand therefor and, if not timely paid, such amounts shall bear interest at the Overdue Rate from the date of determination to the date of payment. Landlord, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Tenant and shall not be responsible for any duplicate attorneys' fees incurred by Tenant, or may compromise or otherwise dispose of the same with Tenant's prior written consent (which consent may not be unreasonably withheld or delayed). In the event Tenant shall unreasonably withhold or delay its consent, Landlord shall not be liable pursuant to this Section 9.9 for any incremental increase in costs or expenses resulting therefrom. The obligations of Landlord under this Section 9.9 are in addition to the obligations set forth in Section 4.3.2 and 21.3.3 and shall survive the termination of this Lease.

Nothing in this Section 9.9 is intended to limit Landlord's right to assert a claim or defense against Tenant based upon the obligations imposed upon Tenant pursuant to Sections 4.3, 5.1, 9.8 and 21.3.3.

9.10 Independent Contractor.

Except as otherwise approved by Landlord in writing, Tenant shall cause any person or company entering upon the Leased Property to provide any installation, construction or repair (each a "Contractor"), which (x) constitutes a Capital Expenditure or (y) has an anticipated cost in excess of $100,000 to (a) have in full force and effect Contractor's Liability Coverage (hereafter defined) effective throughout the period said Contractor is upon the Leased Property and for one year thereafter and (b) deliver within five (5) Business Days of Landlord's request a certificate ("Contractor's Insurance Certificate") evidencing compliance with subpart (a) to Tenant prior to the Contractor's first entry upon the Leased Property. As used herein, the term "Contractor's Liability Coverage" means a comprehensive general liability insurance policy meeting the requirements of this Article 9 (as if required to be provided by Tenant) except the minimum policy limit shall be $1,000,000 per occurrence and $3,000,000 in the aggregate.

Within thirty (30) days after delivery of Landlord's written request, Tenant shall deliver copies of all Contractor's Insurance Certificates to Landlord.

ARTICLE 10
CASUALTY

10.1 Insurance Proceeds.

All proceeds of the insurance contemplated by Section 9.1(a)-(c) payable by reason of any loss, damage or destruction to the Leased Property, or any portion thereof ("Casualty"), and insured under any policy of property or casualty insurance required by Article 9 (other than proceeds of business interruption insurance and any insurance proceeds paid with respect to Tenant's Personal Property, which shall be paid to Tenant) shall be paid directly to Landlord, and paid out by Landlord from time to time for the reasonable costs of reconstruction or repair of the Leased Property necessitated by such Casualty, if and to the extent required by the provisions of Section 10.2; provided, however, that so long as no Event of Default shall have occurred and be continuing, all such proceeds less than or equal to $1,000,000 shall be paid directly to Tenant and applied to the reasonable costs of restoration and repair of the Leased Property necessitated by such Casualty, and such losses may be adjusted without Landlord's consent. Any excess proceeds of insurance remaining after the completion of the restoration shall be paid to Landlord. All salvage resulting from any risk covered by insurance shall belong to Landlord, except for any amount thereof paid with respect to Tenant's Personal Property. If Landlord is not required and elects not to repair and restore as permitted under this Lease, and this Lease is terminated pursuant to Section 10.2, all such insurance proceeds shall be retained by Landlord, except for any amount thereof paid with respect to Tenant's Personal Property and any amount attributable to business interruption insurance.

10.2 Reconstruction in the Event of Casualty.

10.2.1 Facility Rendered Unsuitable for Its Primary Intended Use.

If during the Term the Leased Property is totally or partially destroyed by a Casualty and the Facility is thereby rendered Unsuitable for Its Primary Intended Use, as reasonably determined by Landlord, this Lease shall terminate as of the date of the Casualty and neither Landlord nor Tenant shall have any further liability hereunder except for any liabilities which have arisen or occurred prior to such termination, and those which expressly survive termination of this Lease, and Landlord shall be entitled to retain all Casualty insurance proceeds (except for any amount thereof paid with respect to Tenant's Personal Property and any amount attributable to business interruption insurance).

10.2.2 Facility Not Rendered Unsuitable for Its Primary Intended Use.

If during the Term the Leased Property is totally or partially destroyed by a Casualty, but the Facility is not thereby rendered Unsuitable for Its Primary Intended Use, as reasonably determined by Landlord, Landlord or, at Landlord's election, Tenant shall, subject to Section 10.2.3, promptly restore the Facility as provided

in Section 10.2.4. Except as provided in Section 10.2.3, such damage or destruction shall not terminate this Lease.

10.2.3 Deficiency in Insurance Proceeds.

If the cost of the repair or restoration exceeds the amount of proceeds received by Landlord from the insurance required under Article 9 and Tenant is obligated to restore pursuant to Section 10.2.2 hereof, Landlord agrees, subject to this Section 10.2.3, to contribute any excess amounts needed to restore the Facility prior to requiring Tenant to commence such work. Such difference shall be made available by Landlord, together with any insurance proceeds, for application to the cost of repair and restoration in accordance with the provisions of Section 10.2.4. In the event the sum of (a) the insurance proceeds released to Landlord, and (b) that portion of the deductible, if any, which is greater than five percent (5%) of the cost of the repair, is equal to at least ninety-five percent (95%) of the cost of the repair or restoration, Landlord shall fund the deficiency. In the event the sum of (y) the insurance proceeds, and (z) that portion of the deductible, if any, which is greater than five percent (5%) of the cost of the repair, is less than ninety-five percent (95%) of the cost of the repair or restoration, Landlord shall fund such deficiency in its sole discretion; provided, however, that in the event Landlord does not agree to make such deficiency available for restoration, either Landlord or Tenant may terminate this Lease by written notice to the other, whereupon this Lease shall terminate as provided in Section 10.2.1 and Landlord shall pay to Tenant a termination fee equal to Tenant's Operating Profit for the immediately preceding Fiscal Year.

10.2.4 Disbursement of Proceeds.

In the event Tenant is required to restore the Leased Property pursuant to Section 10.2.2, Tenant shall (or shall direct Manager to) commence promptly and continue diligently to perform the repair and restoration of the Leased Property, so as to restore the Leased Property in compliance with all Legal Requirements to substantially the same condition, to the extent reasonably practicable, as existed immediately before the damage or destruction and otherwise in accordance with this Lease. Landlord shall advance the insurance proceeds and, subject to the terms hereof, any additional amounts payable by Landlord pursuant to Section 10.2.3 to Tenant regularly during the repair and restoration period so as to permit payment for the cost of any such restoration and repair. Any such advances shall be made not more frequently than monthly within ten (10) Business Days after Tenant submits to Landlord a written requisition and substantiation therefor on AIA Forms G702 and G703 (or on such other form or forms as may be reasonably acceptable to Landlord). Landlord may, at its option, condition advancement of said insurance proceeds and other amounts on (i) the absence of any uncured Event of Default, (ii) its approval of plans and specifications of an architect reasonably satisfactory to Landlord (which approval shall not be unreasonably withheld or delayed), (iii) general contractor's estimates, (iv) architect's certificates, (v) unconditional lien waivers of general contractors (if available), (vi) evidence of approval by all governmental authorities and other regulatory bodies whose approval is required, and (vii) such other certificates as Landlord may, from time to time, reasonably require.

Landlord's obligation to disburse insurance proceeds under this Article 10 shall be subject to the release of such proceeds by any Facility Mortgagee to Landlord, and Tenant's obligation to restore the Leased Property pursuant to this Article 10 shall be subject to the release of available insurance proceeds by any Facility Mortgagee to Landlord or directly to Tenant or Manager and, in the event such proceeds are insufficient, Landlord electing to make such deficiency available therefor (and disbursement of such deficiency); provided, however, that Landlord and Tenant shall each have the same termination rights in the event of any Facility Mortgagee's failure or refusal to disburse insurance proceeds as they have with respect to Landlord's failure to disburse any deficiency in insurance proceeds, as provided in Section 10.2.3.

10.3 Reconstruction in the Event of Damage or Destruction Not Covered by Insurance.

If during the Term the Facility is totally or materially damaged or destroyed by a risk not covered by the insurance described in Article 9, or if the proceeds of such insurance are not available to Landlord for restoration of the Facility, whether or not in either event such damage or destruction renders the Facility Unsuitable for Its Primary Intended Use, Landlord at its option shall either, (a) direct Tenant to restore the Facility at Landlord's sole cost and expense to substantially the same condition it was in immediately before such damage or destruction, in which case such damage or destruction shall not terminate this Lease, or (b) terminate this Lease and neither Landlord nor Tenant shall have any further liability thereunder, except for any liabilities which have arisen or occurred prior to such termination and those which expressly survive termination of this Lease.

10.4 Tenant's Property and Business Interruption Insurance.

All insurance proceeds payable by reason of any loss of or damage to any of Tenant's Personal Property and the business interruption insurance maintained for the benefit of Tenant shall be paid to Tenant.

10.5 Abatement of Rent.

Any damage or destruction due to Casualty notwithstanding, this Lease shall remain in full force and effect (except as otherwise expressly provided in this Article 10) and Tenant's obligation to pay Rent required by this Lease shall remain unabated by any Casualty which does not result in a reduction of Gross Revenues. If and to the extent that any Casualty results in a reduction of Gross Revenues (including proceeds of any business interruption insurance actually received by Tenant or that would have been received by Tenant if Tenant were in full compliance with the insurance requirements of Article 9) which would otherwise be realizable from the operation of the Facility, then Landlord shall receive all loss of rental income insurance and Tenant shall have no obligation to pay Rent with respect to any Accounting Period during the continuation of such Casualty in excess of the greater of (i) one-thirteenth (or one-twelfth, if Accounting Periods are then the same as calendar months) of the aggregate amount of Rent (excluding Additional Charges) paid to Landlord with respect to the last full Fiscal Year prior to such Casualty or (ii) the amount of Rent calculated with respect to such Accounting Period under Section 3.1.1 without

regard to clause (A)(i) of such Section (which relates to Minimum Rent); provided, however, that if such damage or destruction was caused by Tenant's gross negligence or willful misconduct, Tenant shall remain liable for the amount of Rent which would have been payable hereunder at a rate equal to the average Rent during the last three (3) preceding Lease Years (or if three (3) Lease Years shall not have elapsed, the average during the preceding Lease Years), as if such Casualty had not occurred.

ARTICLE 11
CONDEMNATION

11.1 Total Condemnation, Etc.

If either (i) the whole of the Leased Property shall be taken by Condemnation or (ii) a Condemnation of less than the whole of the Leased Property renders the Leased Property Unsuitable for Its Primary Intended Use, as reasonably determined by Landlord, this Lease shall terminate as of the day of the Condemnation, and Tenant and Landlord shall seek the Award for their respective interests in the Leased Property as provided in Section 11.4.

11.2 Partial Condemnation.

In the event of a Condemnation of less than the whole of the Leased Property such that the Leased Property is still suitable for its Primary Intended Use, as reasonably determined by Landlord, Tenant shall, to the extent that the Award and additional amounts disbursed by Landlord are sufficient therefor, commence promptly and continue diligently to restore the untaken portion of the Facility so that the Facility shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as the Facility existing immediately prior to such Condemnation, in full compliance with all Legal Requirements. Subject to the terms hereof, Landlord shall contribute to the cost of restoration that part of the Award necessary to complete such repair or restoration, together with severance and other damages awarded for the taken portion of the Facility (provided, however, that the amount of such contribution shall not exceed such cost), and such amounts shall be advanced to Tenant regularly during the restoration period so as to permit payment for the cost of such repair or restoration. Landlord may, at its option, condition advancement of such Award and other amounts on (i) the absence of any continuing Event of Default, (ii) its approval of plans and specifications of an architect reasonably satisfactory to Landlord (which approval shall not be unreasonably withheld or delayed), (iii) general contractors' estimates, (iv) architect's certificates, (v) unconditional lien waivers of general contractors (if available), (vi) evidence of approval by all governmental authorities and other regulatory bodies whose approval is required and (vii) such other certificates as Landlord may, from time to time, reasonably require. Landlord's obligation under this Section 11.2 to disburse the Award and such other amounts shall be subject to (x) the collection of the Award by Landlord and (y) the satisfaction of any applicable requirements of the Facility Mortgage, and the release of such Award by the Facility Mortgagee. Tenant's obligation to restore the Leased Property shall be subject to the release of the Award and any additional funds to be disbursed by Landlord pursuant hereto required for restoration. Subject to Section 21.3.3, if Landlord has received the Award, but elects not to make the Award available to Tenant

for restoration, then Tenant shall have the right to terminate this Lease and Landlord shall pay to Tenant a termination fee equal to the amount of Tenant's Operating Profit for the immediately preceding Fiscal Year. Subject to Section 21.3.3, if Landlord has not received the Award, or the Award is insufficient to restore the untaken portion of the Facility as provided above, then Landlord, in its sole discretion, shall have the right to terminate this Lease and neither Landlord nor Tenant shall have any further liability hereunder, except for any liabilities which have arisen or occurred prior to such termination and those which expressly survive termination of this Lease, and Landlord shall be entitled to retain the entire Award; provided that Tenant shall be permitted to seek a separate award for the value of Tenant's Personal Property that was taken in such Condemnation.

11.3 Abatement of Rent.

In the event of a partial Condemnation as described in Section 11.2 which does not result in a termination of this Lease by Landlord, the Rent shall be abated in the manner and to the extent that is fair, just, and equitable to both Tenant and Landlord, taking into consideration, among other relevant factors, the number of usable rooms, the amount of square footage, or the effect upon revenues of such partial Condemnation. If Landlord and Tenant are unable to agree upon the amount of such abatement within thirty (30) days after such partial Condemnation, the matter shall be submitted to appraisal as provided for in Article 19 hereof.

11.4 Allocation of Award.

Except as provided in the second sentence of this Section 11.4, the total Award shall be solely the property of and payable to Landlord. Any portion of the Award made for the taking of Tenant's leasehold interest in the Leased Property (valued without regard to any right of termination in Landlord that otherwise exists under this Article 11), loss of business during the remainder of the Term (determined without regard to any provision for termination that might otherwise arise under this Article 11), the taking of Tenant's Personal Property or Tenant's removal and relocation expenses shall be the sole property of and payable to Tenant (subject to the provisions of Section 11.2). Subject to the rights of the Manager under the Management Agreement and the rights of any Facility Mortgagee under a Facility Mortgage, in any Condemnation proceedings, Landlord and Tenant shall each seek its own Award in conformity herewith, at its own expense.

ARTICLE 12
TENANT DEFAULTS; REMEDIES

12.1 Event of Default.

The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder:

(a) Tenant fails (i) to make any payment of the Minimum Rent or Percentage Rent payable hereunder when due and such failure continues for a period of ten (10) days after the date due, or (ii) subject to the right to contest same pursuant to Article 8

hereof, to make any required payments of Additional Charges within ten (10) days following Notice from Landlord that such payment is due and owing and unpaid.

(b) Tenant fails to maintain the insurance coverages that it is required to maintain under Article 9.

(c) Except as otherwise expressly provided herein, Tenant defaults in the due observance or performance of any of the terms, covenants or agreements contained herein to be performed or observed by it (other than as specified in clauses (a) and (b) above), and, in either case, such default continues for a period of thirty (30) days after Notice thereof from Landlord to Tenant; provided, however, that if such default is curable but such cure cannot be accomplished with due diligence within such period of time and if, in addition, Tenant commences to cure such default within thirty (30) days after Notice thereof from Landlord and thereafter prosecutes the curing of such default with all due diligence, such period of time shall be extended to such period of time (not to exceed one hundred twenty (120) days in the aggregate, subject to Unavoidable Delay) as may be necessary to cure such default, provided further that the cure rights shall not apply to any breach of a Tenant covenant under Section 22.1, 22.3, 22.4, or 22.5.

(d) Any obligation of Tenant in respect of any Indebtedness (other than Tenant's obligations under any Excess FF&E Lease that constitutes Indebtedness) in a principal amount in excess of ($1,000,000) for money borrowed or for the deferred purchase price of any material property or services, is declared to be, or as a result of acceleration becomes, due and payable prior to the stated maturity thereof.

(e) There occurs a final unappealable determination by applicable federal or State authorities of the revocation or limitation of any material license (including, but not limited to, any gaming license), permit, certification, or approval required for the material lawful operation of the Facility in accordance with its Primary Intended Use or the loss or limitation of any material license (including but not limited to any gaming license), permit, certification, or approval under any other circumstances under which Tenant is required to cease its operation of the Facility in accordance with its Primary Intended Use at the time of such loss or limitation, which revocation, limitation or loss is not caused by actions of Landlord or its Affiliates or which is not beyond the reasonable control of Tenant.

(f) Tenant is generally not paying its debts as they become due, or Tenant makes a general assignment for the benefit of creditors.

(g) Any petition is filed by or against Tenant under the Federal bankruptcy laws, or any other proceeding is instituted by or against Tenant seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Tenant or for any substantial part of the property of Tenant, and, in the case of any involuntary petition filed or proceeding instituted against Tenant only, such proceeding is not

dismissed within sixty (60) days after institution thereof, or Tenant takes any action to authorize or effect any of the actions set forth above in this paragraph.

(h) Tenant causes or institutes any proceeding for its dissolution or termination.

(i) Tenant ceases operation of the Leased Property for its Primary Intended Use for a period in excess of thirty (30) consecutive days, except as a result of a Casualty, other Emergency Situations, the matters set forth in Section 23.17 or partial or complete Condemnation of or to the Facility or of or to the immediate surroundings so as to prohibit reasonable access by patrons to the Facility.

(j) The estate or interest of Tenant in the Leased Property or any part thereof is levied upon or attached in any proceeding and the same is not vacated or discharged within the later of (i) one hundred and twenty (120) days after commencement thereof, unless the amount in dispute is less than $250,000, in which case Tenant shall give Notice to Landlord of the dispute but Tenant may defend in any suitable way and (ii) thirty (30) days after receipt by Tenant of Notice thereof from Landlord (unless Tenant shall be contesting such lien or attachment in good faith in accordance with Article 8).

(k) Any Change in Control occurs.

(l) Tenant or TRS defaults under the terms of any of the Related Agreements beyond the expiration of any applicable notice and cure periods.

(m) [Intentionally Omitted.]

(n) [Intentionally Omitted.]

In any such event, Landlord, in addition to all other remedies available to it, may terminate this Lease by giving Notice thereof to Tenant, and upon the expiration of the time, if any, fixed in such Notice, this Lease shall terminate and all rights of Tenant under this Lease shall cease. Subject to Section 23.11, Landlord shall have, and may exercise in its sole and absolute discretion, all, or none of the, rights and remedies available at law and in equity to Landlord as a result of Tenant's breach of this Lease; provided, however, that notwithstanding anything set forth herein to the contrary, (A) Landlord's sole remedy for an Event of Default under Section 12.1(k) shall be to terminate this Lease, and (B) Landlord's actual damages in the event of a breach by Tenant of any of its obligations pursuant to Article 22 and a resulting loss of REIT status by Host REIT shall include, without limitation, amounts equal to income taxes paid by Host REIT and (without duplication) loss of value of Host REIT, both to the extent attributable to the loss of REIT status; provided that any termination as a result of an Event of Default under Section 12.1(k) shall occur no later than 450 days after the applicable Change in Control (or such shorter period as may be expressly provided in the Management Agreement or Consent and Assignment) and upon not less than 30 days' Notice to Tenant. If Landlord terminates this Lease because of an Event of Default under Section 12.1(k) above, and the Change in Control does not involve an Adverse Party, then

Landlord shall pay to Tenant a termination fee equal to Tenant's Operating Profit for the immediately preceding Fiscal Year.

Upon the occurrence of an Event of Default, Landlord may, in addition to any other remedies provided herein, enter upon the Leased Property and take possession thereof, and either (i) retain any and all of Tenant's Personal Property on the Leased Property, without liability for trespass or conversion (Tenant hereby waiving any right to Notice or hearing prior to such taking of possession by Landlord) or (ii) sell the same at public or private sale, after giving Tenant reasonable Notice of the time and place of any public or private sale, at which sale Tenant or its assigns may purchase all or any portion of Tenant's Personal Property. Unless otherwise provided by law and without intending to exclude any other manner of giving Tenant reasonable notice, the requirement of reasonable Notice shall be met if such Notice is given at least ten (10) Business Days before the date of sale. The proceeds from any such disposition, less all expenses incurred in connection with the taking of possession, holding and selling of such property (including reasonable attorneys' fees) shall belong to Landlord and shall be applied as a credit against the indebtedness which is secured by the security interest granted in Section 7.2. Any surplus shall be paid to Tenant or as otherwise required by law, and Tenant shall pay any deficiency to Landlord, as Additional Charges, upon demand.

The foregoing provisions hereof notwithstanding, Landlord shall have no right to assert any remedy hereunder in respect of an Event of Default, and an Event of Default shall be deemed to no longer exist, if Tenant cures an Event of Default (A) under Section 12.1(a) prior to the earlier of (x) the commencement by Landlord of the exercise of any remedy under this Lease by Landlord or (y) Landlord's Notice to Tenant stating that an Event of Default exists and further stating Landlord's intention to assert one or more remedies hereunder, and (B) under any of Section 12.1(b)-(l), prior to the commencement by Landlord of the exercise of any remedy under this Lease by Landlord.

12.2 Remedies.

None of (a) the termination of this Lease pursuant to Section 12.1, (b) the repossession of the Leased Property, (c) the failure of Landlord to re-let the Leased Property, or (d) the reletting of the Leased Property, shall relieve Tenant of its liability and obligations hereunder, all of which shall survive any such termination, repossession or re-letting. In the event of any such termination, Tenant shall forthwith pay to Landlord all Rent due and payable with respect to the Leased Property through and including the date of such termination. Thereafter, Tenant, until the earlier of what would have been the end of the Term of this Lease in the absence of such termination, or the date on which Tenant pays Landlord the liquidated final damages described in the next paragraph of this Section 12.2, and whether or not the Leased Property or any portion thereof shall have been re-let, shall be liable to Landlord for, and shall pay to Landlord, as current damages, the Rent and other charges which would be payable hereunder for the remainder of the Term had such termination not occurred, less the net proceeds, if any, of any re-letting or other operation by or on behalf of Landlord of the Leased Property, after deducting all expenses in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, advertising, expenses of employees, alteration costs and expenses of preparation for such reletting. Tenant shall

pay such current damages to Landlord monthly on the days on which the Minimum Rent would have been payable hereunder if this Lease had not been so terminated.

At any time after such termination, at Landlord's election, whether or not Landlord shall have previously collected any such current damages, as liquidated final damages beyond the date of such termination, Tenant shall pay to Landlord an amount equal to the present value (discounted at a rate of twelve percent (12%) per annum) of the excess, if any, of the Rent and other charges which would be payable hereunder from the date of such termination (assuming that, for the purposes of this paragraph, annual payments by Tenant on account of Impositions would be the same as payments required for the immediately preceding twelve calendar months) for what would be the then unexpired Term of this Lease if the same remained in effect, over the Fair Market Rental for the same period. Nothing contained in this Lease shall, however, limit or prejudice the right of Landlord to prove and obtain in proceedings for bankruptcy or insolvency an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater than, equal to, or less than the amount of the loss or damages referred to above.

Percentage Rent for the purposes of this Section 12.2 shall be a sum equal to (i) the average of the annual amounts of Percentage Rent for the three (3) Fiscal Years immediately preceding the Fiscal Year in which the termination, re-entry or repossession takes place, or (ii) if three (3) Fiscal Years shall not have elapsed, the Percentage Rent during the preceding Fiscal Year during which this Lease was in effect.

In case of any Event of Default, re-entry, expiration and dispossession by summary proceedings or otherwise, Landlord may, subject to the rights of Manager under the Management Agreement, (a) relet the Leased Property or any part or parts thereof, either in the name of Landlord or otherwise, for a term or terms which may, at Landlord's option, be equal to, less than or exceed the period which would otherwise have constituted the balance of the Term and may grant concessions or free rent to the extent that Landlord considers advisable and necessary to relet the same, and (b) make such reasonable alterations, repairs and decorations in the Leased Property or any portion thereof as Landlord, in its sole and absolute discretion, considers advisable and necessary for the purpose of reletting the Leased Property; and the making of such alterations, repairs and decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Subject to the last sentence of this paragraph, Landlord shall in no event be liable in any way whatsoever for any failure to relet all or any portion of the Leased Property, or, in the event that the Leased Property is relet, for failure to collect the rent under such reletting. To the maximum extent permitted by law, Tenant hereby expressly waives any and all rights of redemption granted under any present or future laws in the event of Tenant being evicted or dispossessed, or in the event of Landlord obtaining possession of the Leased Property, by reason of the occurrence and during the continuation of an Event of Default hereunder. Landlord covenants and agrees in the event of any termination of this Lease as a result of an Event of Default to use commercially reasonable efforts to mitigate its damages.

12.3 Waivers.

LANDLORD AND TENANT WAIVE, TO THE EXTENT PERMITTED BY LAW, ANY RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT AND/OR TENANT'S USE OR OCCUPANCY OF THE LEASED PROPERTY. TENANT WAIVES, TO THE EXTENT PERMITTED BY LAW, THE BENEFIT OF ANY LAWS NOW OR HEREAFTER IN FORCE EXEMPTING PROPERTY FROM LIABILITY FOR RENT OR FOR DEBT.

12.4 Application of Funds.

Any payments received by Landlord under any of the provisions of this Lease during the existence or continuance of any Event of Default (and any payment made to Landlord rather than Tenant due to the existence of any Event of Default) shall be applied to Tenant's obligations under this Lease in such order as Landlord may determine or as may be prescribed by the laws of the State.

12.5 Landlord's Right to Cure Tenant's Default.

If (i) a Default shall have occurred and is continuing which in the reasonable judgment of Landlord requires immediate action on the part of Landlord or (ii) an Event of Default shall have occurred and is continuing, Landlord, after Notice to Tenant (which Notice need not precede such action if Landlord shall reasonably determine immediate action is necessary to protect person or property), without waiving or releasing any obligation of Tenant and without waiving or releasing any Event of Default, may (but shall not be obligated to), at any time thereafter, make such payment or perform such act for the account and at the expense of Tenant, and may, to the maximum extent permitted by law, enter upon the Leased Property or any portion thereof for such purpose and take all such action thereon as, in Landlord's sole and absolute discretion, may be necessary or appropriate therefor, including the management of the Facility by Landlord or its designee, and Tenant hereby irrevocably appoints, in the event of such election by Landlord, Landlord or its designee as the operator of the Facility and its attorney in fact for such purpose, irrevocably and coupled with an interest, in the name, place and stead of Tenant. No such entry shall be deemed an eviction of Tenant. All reasonable costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Landlord in connection therewith, together with interest thereon (to the extent permitted by law) at the Overdue Rate from the date such sums are paid by Landlord until repaid, shall be paid by Tenant to Landlord, on demand.

ARTICLE 13
HOLDING OVER

Any holding over by Tenant after the expiration or sooner termination of this Lease (other than with the express written consent of Landlord) shall be treated as a tenancy at sufferance at a rate equal to (a) one and one-half (1.5) times one-twelfth of the aggregate Minimum Rent and Percentage Rent payable with respect to the last Fiscal Year of the Term, (b) all Additional Charges accruing during the applicable Accounting Period, and

(c) all other sums, if any, payable by Tenant under this Lease with respect to the Leased Property during the applicable Accounting Period. Tenant shall also pay to Landlord all damages (direct or indirect) sustained by reason of any such holding over. Otherwise, such holding over shall be on the terms and conditions set forth in this Lease, to the extent applicable. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the expiration or earlier termination of this Lease.

ARTICLE 14
LANDLORD NOTICE OBLIGATION; LANDLORD DEFAULT

14.1 Landlord Notice Obligation.

Landlord shall give prompt Notice to Tenant and Manager of any matters materially affecting the Leased Property of which Landlord receives written notice or actual knowledge and, to the extent Tenant otherwise has no notice or actual knowledge thereof, Landlord shall be liable for any liabilities arising from the failure to deliver such Notice to Tenant. Except as expressly set forth herein or in the Consent and Assignment, Landlord shall not amend the Management Agreement without Tenant's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed.

14.2 Landlord Default.

The occurrence of the following events shall constitute a "Landlord Default":

(a) Landlord fails to make any payment due hereunder when due and such failure continues for a period of ten (10) days following Notice from Tenant that such payment is due and owing and unpaid.

(b) Landlord fails to maintain the insurance coverages that it is required to maintain under Article 9.

(c) Landlord defaults in the due observance or performance of any of the terms, covenants or agreements contained herein to be performed or observed by it (other than as specified in clauses (a) and (b) above), and, in either case, such default continues for a period of thirty (30) days after Notice thereof from Tenant to Landlord; provided, however, that if such default is curable but such cure cannot be accomplished with due diligence within such period of time and if, in addition, Landlord commences to cure such default within thirty (30) days after Notice thereof from Tenant and thereafter prosecutes the curing of such default with all due diligence, such period of time shall be extended to such period of time (not to exceed one hundred twenty (120) days in the aggregate, subject to Unavoidable Delay) as may be necessary to cure such default.

(d) Landlord is generally not paying its debts as they become due, or Landlord makes a general assignment for the benefit of creditors.

(e) Any petition is filed by or against Landlord under the Federal bankruptcy laws, or any other proceeding is instituted by or against Landlord seeking to

adjudicate it a bankrupt or insolvent, or seeking liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Landlord or for any substantial part of the property of Landlord and, in the case of any involuntary petition filed or proceeding instituted against Landlord only, such proceeding is not dismissed within sixty (60) days after institution thereof, or Landlord takes any action to authorize or effect any of the actions set forth above in this paragraph.

(f) Landlord causes or institutes any proceeding for its dissolution or termination.

(g) Landlord or Host O.P. defaults under the terms of any of the Related Agreements beyond the expiration of any applicable notice and cure periods.

Subject to Section 23.11, in the event of a Landlord Default, Tenant shall have and may exercise all rights and remedies available at law and in equity, including, without limitation, the right to pursue an action for damages against Landlord; provided, however, that except as otherwise expressly provided in this Lease, Tenant shall have no right to terminate this Lease for any Landlord Default hereunder and no right to offset or counterclaim against any Rent or other charges due hereunder. If Landlord shall in good faith dispute the occurrence of any Landlord Default and Landlord shall give Notice thereof to Tenant, setting forth, in reasonable detail, the basis therefor, and Tenant and Landlord shall fail, in good faith, to resolve any such dispute within ten (10) days after Landlord's Notice of dispute, then either may submit the matter to arbitration under Article 15 for resolution, and no Landlord Default shall be deemed to have occurred and Landlord shall have no obligation with respect thereto until final adverse determination thereof in such arbitration. In the event of any such adverse determination, Landlord shall pay to Tenant interest on any disputed funds at the Overdue Rate, from the date demand was made until paid, and in the event Landlord fails to make such payment within fifteen (15) days after such adverse determination, Tenant shall be entitled to offset such amount against the payment or, if necessary, payments of Rent next coming due hereunder. If Tenant reasonably determines that immediate action is necessary to protect person or property or to comply with Legal Requirements, Tenant may forthwith cure the Landlord Default and invoice Landlord for costs and expenses (including reasonable attorneys' fees and court costs) incurred by Tenant in curing the same, together with interest thereon from the date Landlord receives Tenant's Notice, at the Overdue Rate.

ARTICLE 15
ARBITRATION

15.1 Arbitration.

In each case specified in this Lease in which it shall become necessary to resort to arbitration, such arbitration shall be determined as provided in this Article 15. The party desiring such arbitration shall give Notice to that effect to the other party, specifying the nature of the dispute, the amount involved (if any), and the remedy sought. An arbitrator shall be selected by mutual agreement of the parties, or if they cannot agree

within thirty (30) days of such Notice, by appointment made by the American Arbitration Association ("AAA") from among the members of its panels who are qualified and who have experience in resolving matters of a nature similar to the matter to be resolved by arbitration.

15.2 Arbitration Procedures.

Any arbitration commenced pursuant to Section 15.1 shall be conducted in accordance with the AAA's Rules of Commercial Arbitration in business disputes. A single arbitrator shall be designated and shall resolve the dispute. The arbitrator's decision shall be binding on all parties, shall not be subject to further review or appeal except as otherwise allowed by applicable law and may be filed in and enforced by a court of competent jurisdiction. The arbitrator shall award to the prevailing party, if any, as determined by the arbitrator, all of its costs and expenses, including attorneys' fees, arbitrator's fees, and reasonable out-of-pocket expenses of any kind, except as otherwise specified below in this Section 15.2. The term "prevailing party," as used in the preceding sentence, shall mean the party whose position is most nearly upheld in arbitration. Upon the failure of either party (the "non-complying party") to comply with the arbitrator's decision, the arbitrator shall be empowered, at the request of the other party, to order such compliance by the non-complying party and to supervise or arrange for the supervision of the non-complying party's obligation to comply with the arbitrator's decision, all at the expense of the non-complying party. To the maximum extent practicable, the arbitrator and the parties, and the AAA, if applicable, shall take any action necessary to insure that the arbitration shall be concluded within ninety (90) days of the filing of such dispute. Unless otherwise agreed in writing by the parties or required by the arbitrator or the AAA, if applicable, arbitration proceedings hereunder shall be conducted in the Washington, DC, metropolitan area. Notwithstanding formal rules of evidence, each party may submit such evidence as each party deems appropriate to support its position, and the arbitrator shall have access to and the right to examine all books and records of Landlord and Tenant and, subject to the Management Agreement, the Manager regarding the Leased Property during the arbitration The consideration of the parties to be bound by arbitration is not only the waiver of trial by jury but also the waiver of any rights to appeal the arbitration finding.

ARTICLE 16
SUBLETTING AND ASSIGNMENT

16.1 Subletting and Assignment.

Except as otherwise expressly provided in this Section 16.1, Tenant shall not, without the prior written consent of Landlord (which consent may be withheld in Landlord's sole and absolute discretion), assign, mortgage, pledge, hypothecate, encumber or otherwise transfer this Lease or sublease (which term shall be deemed to include the granting of concessions, licenses and the like) all or any part of the Leased Property, or suffer or permit this Lease or the leasehold estate created hereby or any other rights arising under this Lease to be assigned, transferred, mortgaged, pledged, hypothecated or encumbered, in whole or in part, whether voluntarily, involuntarily or by operation of law, or permit the use or occupancy of the Leased Property by anyone other than Tenant or Manager (except in accordance with Section 21.3.4), or permit the Leased Property to be

offered or advertised for assignment or subletting. Tenant may, in each instance, after Notice to Landlord, assign this Lease to any Qualified Affiliate in accordance with Section 21.6.6, so long as such assignment will not violate or affect any applicable Legal Requirements or Insurance Requirements. For purposes of this Section 16.1, an assignment of this Lease (other than to a Qualified Affiliate in accordance with Section 21.6.6) shall be deemed to constitute a Change in Control.

If this Lease is assigned or if the Leased Property or any part thereof is sublet in contravention of this Lease, Landlord may collect the rents from such assignee, subtenant or occupant, as the case may be, and apply the net amount collected to the Rent herein reserved, but no such collection shall be deemed (i) a waiver of the provisions set forth in the first paragraph of this Section 16.1, (ii) the acceptance by Landlord of such assignee, subtenant or occupant, as the case may be, as a tenant, or (iii) a release of Tenant from the future performance by Tenant of its covenants, agreements or obligations contained in this Lease.

Tenant, as the debtor in possession, or the trustee for Tenant (collectively, the "Trustee") in any proceeding under Title 11 of the United States Bankruptcy Code relating to Bankruptcy, as amended (the "Bankruptcy Code"), shall not have the right to assign this Lease or sublet the Leased Property to an assignee or sublessee that (i) is a competitor of Landlord or (ii) is not a capable, reliable, qualified Person of good reputation and character with the financial capacity to satisfy Tenant's obligations under this Lease. The Trustee shall not have the right to assign this Lease or sublet the Leased Property to a real estate investment trust that is, or intends to be, publicly traded.

In the event that Tenant becomes the subject of any proceeding under Title 11 of the Bankruptcy Code, Tenant covenants and agrees that: (i) it shall promptly upon demand therefor from Landlord, but in no event later than sixty (60) days (as such time may be extended by a bankruptcy court in such proceeding) after the commencement of such proceeding (a "Tenant Bankruptcy"), announce its decision whether to assume or reject this Lease and Tenant's obligations under the Consent and Assignment and the Assigned Agreements, and promptly take and diligently pursue such actions as may be necessary to authorize and implement such decision; and (ii) it shall either assume this Lease and all of Tenant's obligations under the Consent and Assignment and the Assigned Agreements to the extent such Assigned Agreements have not expired or terminated in accordance with their respective terms, or it shall reject this Lease and all of Tenant's obligations under the Consent and Assignment and the Assigned Agreements. In a Tenant Bankruptcy, Tenant covenants and agrees that it cannot cure any defaults under this Lease and cannot provide adequate assurances of future performance of this Lease without curing any and all monetary and non-monetary defaults of Tenant's obligations under the Consent and Assignment and the Assigned Agreements and providing adequate assurances of Tenant's future performance of its obligations under the Consent and Assignment and the Assigned Agreements.

No subletting or assignment shall in any way impair the continuing primary liability of Tenant hereunder, and no consent to any subletting or assignment in a particular instance shall be deemed to be a waiver of the prohibition set forth in this Section 16.1. No assignment, subletting or occupancy shall affect any Primary Intended

Use. Any subletting, assignment or other transfer of Tenant's interest under this Lease in contravention of this Section 16.1 shall be voidable at Landlord's option.

16.2 Required Sublease Provisions.

Any sublease of all or any portion of the Leased Property entered into on or subsequent to the Commencement Date shall provide (a) that it is subject and subordinate to this Lease and to the matters to which this Lease is or shall be subject or subordinate; (b) that in the event of termination of this Lease or reentry or dispossession of Tenant by Landlord under this Lease, Landlord may, at its option, terminate such sublease or take over all of the right, title and interest of Tenant, as sublessor under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that neither Landlord nor the Facility Mortgagee, as holder of a mortgage or as Landlord under this Lease, if such mortgagee succeeds to that position, shall (i) be liable for any act or omission of Tenant under such sublease, (ii) be subject to any credit, counterclaim, offset or defense which theretofore accrued to such subtenant against Tenant, (iii) be bound by any previous modification of such sublease requiring Landlord's consent hereunder and not consented to in writing by Landlord or by any previous prepayment of more than one (1) month's rent, (iv) be bound by any covenant of Tenant to undertake or complete any construction of the Leased Property or any portion thereof, (v) be required to account for any security deposit of the subtenant other than any security deposit actually delivered to Landlord by Tenant, (vi) be bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease that are to be performed after the date of such attornment, (vii) be responsible for any monies owing by Tenant prior to the date of attornment to the credit of such subtenant, or (viii) be required to remove any Person occupying any portion of the Leased Property; and (c) in the event that such subtenant receives a written Notice from Landlord or the Facility Mortgagee stating that an Event of Default has occurred and is continuing, such subtenant shall thereafter be obligated to pay all rentals accruing under such sublease directly to the party giving such Notice or as such party may direct. All rentals received from such subtenant by Landlord or the Facility Mortgagee, as the case may be, shall be credited against the amounts owing by Tenant under this Lease, and such sublease shall provide that the subtenant thereunder shall, at the request of Landlord, execute a suitable instrument in confirmation of such agreement to attorn. An original counterpart of each such sublease and assignment and assumption, duly executed by Tenant and such subtenant or assignee, as the case may be, in form and substance reasonably satisfactory to Landlord, shall be delivered promptly to Landlord upon request and (a) in the case of an assignment, the assignee shall assume in writing and agree to keep and perform all of the terms of this Lease on the part of Tenant to be kept and performed and shall be, and become, jointly and severally liable with Tenant for the performance thereof and (b) in case of either an assignment or subletting, Tenant shall remain primarily liable, as principal rather than as surety, for the prompt payment of the Rent and for the performance and observance of all of the covenants and conditions to be performed by Tenant hereunder.

The provisions of this Section 16.2 shall not be deemed a waiver of the provisions set forth in the first paragraph of Section 16.1.

16.3 No Right of Tenant to Mortgage Its Leasehold.

Notwithstanding any other provision of this Lease to the contrary, Tenant shall not assign its interest in this Lease as collateral for Indebtedness.

ARTICLE 17
ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS

17.1 Estoppel Certificates.

At any time and from time to time, upon not less than ten (10) Business Days prior Notice by either party, the non-requesting party shall furnish to the requesting party, or a designee thereof, an Officer's Certificate certifying that this Lease is unmodified and in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications), the date to which the Rent has been paid, that to the knowledge of the certifying party, no Default or an Event of Default has occurred and is continuing or, if a Default or an Event of Default shall exist, specifying in reasonable detail the nature thereof and the steps being taken to remedy the same, and such additional information as the requesting party may reasonably request. Any such certificate furnished pursuant to this Section 17.1 may be relied upon by the requesting party, its lender, and any prospective purchaser or mortgagee of the Leased Property or the leasehold estate conveyed hereby.

17.2 Financial Statements.

Tenant shall furnish the following statements to Landlord:

(a) [Intentionally Omitted.];

(b) [Intentionally Omitted.];

(c) within [ ] days after the end of each Fiscal Year, the results of operations of the Facility for the preceding Fiscal Year (the "Annual Operating Statement"), in the form received by Tenant from Manager in accordance with the Management Agreement;

(d) simultaneously with the payment of Rent under Section 3.1.1, the results of operations of the Facility for the preceding Accounting Period (the "Accounting Period Statement"), in the form received by Tenant from Manager in accordance with the Management Agreement;

(e) simultaneously with the payment of Rent under Section 3.1.1, the Percentage Rent Schedule and, simultaneously with the payment of Rent with respect to the final Accounting Period of each Fiscal Year, the Year End Percentage Rent Schedule;

(f) to the extent such information has been provided by Manager to Tenant, not later than twenty-eight (28) days after the end of each Accounting Period, except as described below, the summary of operating results of the Facility (the "Period Report"). The Period Report will provide REVPAR and EBITDA substantially in the

format of the period report attached hereto as Schedule 17.2(f). Notwithstanding the foregoing, for the first Accounting Period of each Fiscal Year, the Period Report will be provided to Landlord not later than thirty-five (35) days after the end of the prior Fiscal Year;

(g) to the extent such information has been provided by Manager to Tenant, not later than twenty-eight (28) days after each of the first three (3) quarters of any Fiscal Year, Tenant will provide the forecast Gross Revenues, Room Revenues and EBITDA for the Facility. In addition, to the extent such information is available from Manager, Tenant will provide forecast Gross Revenues by department by Accounting Period and for the Fiscal Year;

(h) [Intentionally Omitted.];

(i) promptly after the delivery thereof to Tenant, a copy of any management letter or written report prepared by the independent certified public accountants with respect to the financial condition, operations, business or prospects of Tenant, as the case may be; and

(j) at the expense of Landlord, at any time and from time to time upon not less than forty-five (45) days Notice from Landlord, any financial reporting information required to be filed by Landlord with any securities or exchange commission, the SEC or any successor agency, or any other governmental authority, or required pursuant to any order issued by any court, governmental authority or arbitrator in any litigation to which Landlord is a party, for purposes of compliance therewith.

Landlord may at any time, and from time to time, provide the Facility Mortgagee with copies of any of the foregoing statements, provided that Landlord has used commercially reasonable efforts to cause the Facility Mortgagee to execute and deliver a confidentiality agreement reasonably satisfactory to Tenant. Upon reasonable Notice from Landlord, Tenant agrees to cooperate with Landlord to provide to Landlord the data, forecasts, and reports used in the preparation of the foregoing statements within a reasonable time frame after such data and reports become available to Tenant, provided, however, that Tenant makes no representation as to the accuracy of the data, forecasts and reports provided.

17.3 Annual Budget.

Not later than twenty-eight (28) days prior to the commencement of each Fiscal Year, Tenant shall prepare and submit to Landlord a schedule of Tenant's reasonable estimate of Gross Revenues by department (the "Operating Budget Summary"). Not later than fifteen (15) days prior to the commencement of each Fiscal Year, Tenant shall prepare and submit to Landlord an operating budget (the "Operating Budget") and a capital budget (the "Capital Budget") prepared in accordance with the requirements of this Section 17.3. The Operating Budget and the Capital Budget (together, the "Annual Budget") shall be consistent with the format provided by Manager and show the following for the year as a whole:

(a) Tenant's reasonable estimate of Gross Revenues (including room rates and anticipated Room Revenues) for the forthcoming Fiscal Year, together with a summary of the estimated operating results provided by the Manager;

(b) An estimate of any amounts Landlord will be requested to provide for Capital Expenditures during the Fiscal Year;

(c) An estimate of the expenditures necessary for replacements and renewals of FF&E (the "FF&E Estimate"); and

(d) Tenant's reasonable estimate of Percentage Rent payable with respect to Room Revenues, Food and Beverages Sales, and Other Income.

Upon reasonable Notice from Landlord, Tenant agrees to cooperate with Landlord to provide to Landlord the data, forecasts, and reports used in the preparation of the Capital Budget and the Operating Budget within a reasonable time frame after such data and reports become available to Tenant, provided, however, that Tenant makes no representation as to the accuracy of the data, forecasts and reports provided. Landlord shall have twenty-five (25) days after the date on which it receives the Annual Budget to review, disapprove or change the entries and information appearing in the Annual Budget relating to the Capital Budget or the FF&E Estimate, but with regard to the FF&E Estimate, only to the extent the FF&E Estimate indicates amounts in excess of the FF&E Reserve (the Capital Budget and the FF&E Estimate, to the extent it proposes expenditures in excess of the FF&E Reserve, are collectively referred to herein as the "Capital Portion"). If the parties are not able to reach agreement on the Capital Portion for any Fiscal Year during Landlord's twenty-five (25)-day review period, the parties shall attempt in good faith during the subsequent twenty-five (25)-day period to resolve any disputes, which attempt shall include, if requested by either party, at least one (1) meeting of executive level officers of Landlord and Tenant. In the event the parties are still not able to reach agreement on the Capital Portion of the Annual Budget for any particular Fiscal Year after complying with the foregoing requirements of this Section 17.3.2, no Capital Expenditures or FF&E expenditures in excess of the FF&E Reserve shall be made unless the same are set forth in a previously approved Capital Budget or are specifically approved by Landlord or are otherwise required to comply with Legal Requirements or to make emergency expenditures in connection with Emergency Situations or otherwise required pursuant to the Management Agreement.

Tenant shall operate the Leased Property consistent with the Annual Budget and shall promptly report to Landlord in writing any actual or anticipated deviation from the Operating Budget or Capital Budget of any material or long-term consequence. To the extent the budget estimates for the categories of revenues identified in (d) above are not made available on an Accounting Period or Fiscal Year basis from Manager, Tenant shall cooperate with Landlord, at Landlord's sole cost, in its efforts to obtain such budget information from Manager.

Not later than seventy-five (75) days after the beginning of the Fiscal Year, Tenant shall provide Landlord with itemized schedules on an Accounting Period

basis detailing the Operating Budget and the anticipated Percentage Rent (collectively, the "Budget Spread").

ARTICLE 18
LANDLORD'S RIGHT TO INSPECT

Tenant shall permit Landlord and its authorized representatives to inspect the Leased Property during normal business hours upon not less than twenty-four (24) hours Notice, and to make such repairs as are required by Legal Requirements and Insurance Requirements which Tenant fails to make and as Landlord is permitted or required to make pursuant to the terms of this Lease, provided that any inspection or repair by Landlord or its representatives will not unreasonably interfere with Tenant's use and operation of the Leased Property and provided further that in the event of an emergency, as determined by Landlord in its reasonable discretion, prior Notice shall not be necessary.

ARTICLE 19
APPRAISAL

In the event that it becomes necessary to determine the Fair Market Rental for any purpose of this Lease, or the amount of any adjustment to or abatement of Minimum Rent and Percentage Rent pursuant to Section 3.1.6(i), Section 11.3 or Section 12.2 hereof, and the parties cannot agree thereon, such Fair Market Rental, or reduction, adjustment or abatement, as the case may be, shall be determined upon the written request of either party in accordance with the following procedure.

The party requesting an appraisal, by Notice given to the other, shall propose and unilaterally appoint a Qualified Appraiser. The other party, by Notice given within fifteen (15) days after receipt of such Notice appointing the first Qualified Appraiser, may appoint a second Qualified Appraiser. If the other party fails to appoint the second Qualified Appraiser within such fifteen (15)-day period, such party shall have waived its right to appoint a Qualified Appraiser, the first Qualified Appraiser shall appoint a second Qualified Appraiser within fifteen (15) days thereafter, and the Fair Market Rental, or reduction, adjustment or abatement, as the case may be, shall be determined by the Qualified Appraisers as set forth below.

The two Qualified Appraisers shall thereupon endeavor to agree upon the Fair Market Rental, or reduction, adjustment or abatement, as the case may be. If the two Qualified Appraisers so named cannot agree upon such value or rental, or reduction, adjustment or abatement, as the case may be, within thirty (30) days after the designation of the second such appraiser, each such appraiser shall, within five (5) days after the expiration of such thirty (30)-day period, submit his appraisal to the other appraiser in writing, and if the Fair Market Rentals, or amounts of reduction, adjustment or abatement, as the case may be, set forth in such appraisals vary by five percent (5%) or less of the greater value, the Fair Market Rental, or reduction, adjustment or abatement, as the case may be, shall be determined by calculating the average of the two determinations of the two appraisers.

If the Fair Market Rentals, or amounts of reduction, adjustment or abatement, as the case may be, set forth in the two appraisals vary by more than five percent (5%) of the greater value, the two Qualified Appraisers shall select a third Qualified Appraiser within an additional fifteen (15) days following the expiration of the aforesaid five (5)-day period. If the two appraisers are unable to agree upon the appointment of a third appraiser within such fifteen (15)-day period, either party may, upon written notice to the other, request that such appointment be made by the then President (or equivalent officer) of the State's Chapter of the American Institute of Real Estate Appraisers, or his or her designee, or, if there is no such organization or if such individual declines to make such appointment, by any state or Federal court of competent jurisdiction for the State.

In the event that all three of the appraisers cannot agree upon the Fair Market Rental, or reduction, adjustment or abatement, as the case may be, within twenty (20) days following the selection of the third appraiser, each appraiser shall, within ten (10) days thereafter, submit his appraisal to the other two appraisers in writing, and the Fair Market Rental, or reduction, adjustment or abatement, as the case may be, shall be determined by calculating the average of the two numerically closest values (or, if the values are equidistant, the average of all three values) determined by the three appraisers.

In the event that any appraiser appointed hereunder does not or is unable to perform his or her obligation hereunder, then the party or the appraiser(s) appointing such appraiser shall have the right to propose and approve unilaterally a substitute Qualified Appraiser, but if the party or the appraiser(s) who have the right to appoint a substitute Qualified Appraiser fail to do so within ten (10) days after written Notice from the other party (or either party in the event such appraiser was appointed by the other appraisers), either party may, upon written Notice to the party having the right to appoint a substitute Qualified Appraiser, request that such appointment be made by such officer of the American Institute of Real Estate Appraisers or court of competent jurisdiction as described above; provided, however, that a party who has the right to appoint an appraiser or a substitute appraiser shall have the right to make such appointment only up until the time such appointment is made by such officer or court.

In connection with the appraisal process, so long as Tenant receives reasonable prior Notice, Tenant shall provide the appraisers full access during normal business hours to examine the Leased Property, the books, records and files of Tenant and all agreements, leases and other operating agreements relating to the Leased Property.

The costs of each such appraisal shall be borne by the party selecting the appraiser, provided the cost of the third appraiser shall be split equally between Landlord and Tenant. Upon determining such Fair Market Rental, or reduction, adjustment or abatement, as the case may be, the appraisers shall promptly notify Landlord and Tenant in writing of such determination. If any party shall fail to appear at the hearings appointed by the appraisers, the appraisers may act in the absence of such party.

The determination of the Qualified Appraisers made in accordance with the foregoing provisions shall be final and binding upon the parties, such determination may be entered as an award in arbitration in a court of competent jurisdiction, and judgment thereon may be entered.

ARTICLE 20
FACILITY MORTGAGES

20.1 Landlord May Grant Liens.

(a) Without the consent of Tenant, Landlord may, subject to the terms and conditions set forth in this Section 20.1, from time to time, directly or indirectly, create or otherwise cause to exist any Lien or ground lease upon its interest in the Leased Property, or any portion thereof or interest therein, whether to secure any borrowing or other means of financing or refinancing, provided that any such Lien or ground lease shall be consistent with the requirements of the Management Agreement or otherwise approved by Manager, and shall not modify the terms of this Lease, except as expressly set forth in Section 20.2. Landlord agrees to provide to Tenant copies of all existing and future ground leases, and amendments thereto, which affect the Leased Property.

(b) Tenant shall, upon the request of Landlord or any existing, potential or future Facility Mortgagee, and to the extent in Tenant's possession or obtainable from Manager pursuant to the Management Agreement, (i) provide Landlord or the Facility Mortgagee with copies of all licenses, permits, occupancy agreements, operating agreements, leases, contracts, inspection reports, studies, appraisals, assessments, default or other notices and similar materials reasonably requested in connection with any existing or proposed financing of the Leased Property, and (ii) execute such estoppel certificates and collateral assignments with respect to the Facility's licenses and any of the other aforementioned agreements as the Facility Mortgagee may reasonably request in connection with any such financing, provided that no such estoppel certificate or collateral assignment shall, except as expressly set forth in Section 20.2, modify the terms of this Lease.

20.2 Subordination of Lease.

Subject to Section 20.1 and the terms of Section 7.1, this Lease, and any and all rights of Tenant hereunder, are and shall be subject and subordinate to any Facility Mortgage, any ground or master lease, and all renewals, extensions, modifications, consolidations and replacements thereof, and to each and every advance made or hereafter to be made under any such Facility Mortgage. This section shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall promptly execute, acknowledge and deliver any instrument that Landlord, the landlord under any such lease or the holder of any such mortgage or the trustee or beneficiary of any deed of trust or any of their respective successors in interest may reasonably request to evidence such subordination. Tenant shall not unreasonably withhold its consent to any amendment to this Lease reasonably required by such lender or ground lessor, provided that such amendment does not (i) increase Tenant's rental obligations or other financial obligations hereunder, or (ii) have a material adverse effect upon Tenant's rights hereunder, or (iii) materially increase Tenant's non-economic obligations hereunder, or (iv) decrease Landlord's obligations hereunder. Landlord shall exercise commercially reasonable efforts to require any future Facility Mortgagee or landlord under a ground lease affecting the Leased Property to provide Tenant with notice

and an opportunity to cure Landlord defaults under the respective Facility Mortgage or ground lease.

Any lease to which this Lease is, at the time referred to, subject and subordinate is herein called a "Superior Lease," and the landlord of a Superior Lease or its successor in interest at the time referred to is herein called "Superior Landlord"; the Facility Mortgage and any other mortgage or deed of trust to which this Lease is, at the time referred to, subject and subordinate, is herein called a "Superior Mortgage," and the Facility Mortgagee and any other holder, trustee or beneficiary of a Superior Mortgage is herein called "Superior Mortgagee." Tenant shall have no obligations under any Superior Lease or Superior Mortgage other than those expressly set forth in this Section 20.2.

Notwithstanding the obligations of Tenant hereunder, neither any Superior Mortgagee nor any Superior Landlord shall have an obligation to provide a non-disturbance agreement to Tenant. Any Superior Mortgagee or Superior Landlord shall have the right to terminate this Lease upon the foreclosure, deed in lieu of foreclosure or exercise of the power of sale with respect to the Leased Property; provided that, if such right is exercised because of (a) a non-monetary default by Landlord under the terms of the relevant loan agreement or ground lease not caused by an Event of Default hereunder or (b) a monetary default by Landlord (including a misapplication of Rent paid by Tenant) where Tenant is not in Default in the payment of Rent hereunder beyond the expiration of applicable notice and cure periods, then Landlord shall pay to Tenant the Fair Market Value of Tenant's leasehold estate as of the termination date in accordance with Section 24.1(b); provided further that (i) such fee shall be paid first by offsetting any amounts owed by Tenant to Landlord at such time and the balance (if any) shall be paid to Tenant in cash and (ii) Tenant agrees to seek payment of such cash balance (if any) solely from Host O.P. (which, by its execution of this Lease, agrees to be primarily liable for Landlord's obligation under this subparagraph of Section 20.2) pursuant to the terms of the Facility Mortgagee Agreement, and shall not make any demand or claim therefor against Landlord, the Facility Mortgagee, any purchaser in foreclosure or transferee by deed in lieu of foreclosure or other party claiming under any of the foregoing.

In the event a cash flow sweep structure is implemented by any Superior Mortgagee for any period during the continued implementation of such structure, (i) Tenant's obligation to pay Rent or any other amounts payable hereunder shall be reduced by any amounts received by any Superior Mortgagee and (ii) Landlord shall compensate Tenant on an Accounting Period basis for any Tenant Operating Profit not received because of the cash flow sweep structure (i.e., any amount swept in excess of the Rent and other amounts otherwise payable by Tenant under this Lease) and any other costs incurred or advanced by Tenant pursuant to this Lease, and Host O.P. agrees to be primarily liable for Landlord's obligation under this clause (ii). Likewise, for any period during which cash management procedures are implemented by or on behalf of any Superior Mortgagee, (a) Tenant's obligation to pay Rent or any other amounts payable hereunder shall be reduced by any amounts received by any Superior Mortgagee and (b) Landlord shall compensate Tenant on an Accounting Period basis for any Tenant Operating Profit not received because of the cash management procedures (i.e., any amount swept in excess of the Rent and other amounts otherwise payable by Tenant under

this Lease) and any other costs incurred or advanced by Tenant pursuant to this Lease, and Host O.P. agrees to be primarily liable for Landlord's obligation under this clause (b).

Subject to the termination rights of any Superior Landlord or Superior Mortgagee, if any, in the event that any Superior Landlord or Superior Mortgagee or the nominee or designee of any Superior Landlord or Superior Mortgagee shall succeed to the rights of Landlord under this Lease (any such person, "Successor Landlord"), whether through possession or foreclosure action or delivery of a new lease or deed, or otherwise, such Successor Landlord shall recognize Tenant's rights under this Lease as herein provided and Tenant shall attorn to and recognize the Successor Landlord as Tenant's landlord under this Lease and Tenant shall promptly execute and deliver any instrument that such Successor Landlord may reasonably request to evidence such attornment (provided that such instrument does not alter the terms of this Lease), whereupon, this Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord (unless formerly the landlord under this Lease or its nominee or designee) shall not be (a) liable in any way to Tenant for any act or omission, neglect or default on the part of any prior Landlord under this Lease, (b) responsible for any monies owing by or on deposit with any prior Landlord to the credit of Tenant (except to the extent actually paid or delivered to the Successor Landlord), (c) subject to any counterclaim or setoff which theretofore accrued to Tenant against any prior Landlord, (d) bound by any modification of this Lease subsequent to such Superior Lease or Superior Mortgage, or by any previous prepayment of Minimum Rent or Additional Rent for more than one (1) month in advance of the date due hereunder, which was not approved in writing by the Superior Landlord or the Superior Mortgagee, (e) liable to Tenant beyond the Successor Landlord's interest in the Leased Property and the rents, income, receipts, revenues, issues and profits issuing from the Leased Property, (f) responsible for the performance of any work to be done by Landlord under this Lease to render the Leased Property ready for occupancy by Tenant (subject to Landlord's obligations under Section 5.1.2(b) or with respect to any insurance or Condemnation proceeds), or (g) required to remove any Person occupying the Leased Property or any part thereof, except if such Person claims by, through or under the Successor Landlord. Tenant agrees at any time and from time to time to execute a suitable instrument in confirmation of Tenant's agreement to attorn, as aforesaid.

20.3 Notice to Mortgagee and Superior Landlord.

Attached hereto as Schedule 20.3 is a list of the Superior

Mortgagee(s) and Superior Landlord(s) as of the Commencement Date, including their addresses for notices. No default Notice from Tenant to Landlord as to the Leased Property shall be effective unless and until a copy of the same is given to such Superior Mortgagee(s) and Superior Landlord(s), and subsequent to the receipt by Tenant of Notice from Landlord as to the identity of any future Facility Mortgagee or Superior Landlord under a lease with Landlord, as ground tenant, which includes the Leased Property as part of the demised premises and which complies with Sections 20.1 and 20.2 (which Notice shall include a copy of the applicable mortgage or lease), no default Notice from Tenant to Landlord hereunder shall be effective unless and until a copy of the same is given to the Facility Mortgagee or Superior Landlord at the address set forth in such Notice. The curing of any

Landlord Default by any Superior Mortgagee(s) or Superior Landlord(s) listed on Schedule 20.3, or by any Facility Mortgagee or Superior Landlord of which Tenant receives Notice after the Commencement Date as provided above, shall be treated as performance by Landlord, provided any such cure shall be made within the time periods set forth herein.

20.4 Transfer of Leased Property.

Notwithstanding anything set forth herein to the contrary, but subject to the rights of a Facility Mortgagee as set forth herein, Landlord shall not, without the consent of Tenant, transfer the Leased Property, or any interest therein, to any Person (i) which does not have sufficient financial resources and liquidity to fulfill the Landlord's Retained Obligations and Continuing Obligations under the Management Agreement and Landlord's obligations under this Lease, or (ii) which has been, or is in control of or controlled by Persons who have been, convicted of felonies involving moral turpitude in any state or federal court, or otherwise would cause a breach of the Management Agreement.

20.5 Consent of Lender.

(a) Landlord shall, upon the request of Tenant at any time during the year immediately preceding the year in which a Renewal Term is to commence, exercise commercially reasonable efforts to obtain the consent of any and all Facility Mortgagees, ground lessors, partners or other third parties ("Consent Party") to the exercise of Tenant Renewal Options, and to the change in the Rent for any Renewal Period, if any, provided hereunder, to the extent such consent is reasonably determined by Landlord to be required pursuant to the terms of any Facility Mortgage, ground lease, partnership or joint venture agreement or any other third party agreement ("Third Party Agreement").

(b) Landlord shall exercise commercially reasonable efforts to cause any and all Third Party Agreements hereafter entered into, as well as all other documents or agreements hereafter entered into in connection with any such Third Party Agreements to permit the exercise of Tenant Renewal Options without any Consent Party's consent.

(c) In the event that Landlord reasonably concludes and notifies Tenant prior to the scheduled commencement of a Renewal Term that, despite Landlord's commercially reasonable efforts to obtain the consent of any Consent Party pursuant to this Section 20.5, the exercise by Tenant of a Tenant Renewal Option or the change in the Rent for any Renewal Period will cause Landlord to be in default under the terms of the applicable Third Party Agreement, Tenant agrees that it shall not elect to exercise a Tenant Renewal Option (and any prior exercises shall be null and void).

ARTICLE 21
ADDITIONAL COVENANTS OF TENANT

21.1 Conduct of Business.

Tenant shall do or cause to be done all things necessary to preserve, renew and keep in full force and effect and in good standing its existence and its rights and licenses necessary to conduct such business.

21.2 Maintenance of Accounts and Records.

Tenant shall keep records and books of account in which full, true and correct entries in all material respects will be made of dealings and transactions in relation to the business and affairs of Tenant.

21.3 Management of Leased Property.

21.3.1 Management Agreement, Consent and Assignment, Etc.

For and during the Term of this Lease, but not thereafter, Landlord has assigned unto Tenant Landlord's interest as "Owner" under that certain Management Agreement dated _____, _____, by and between Landlord, or Landlord's predecessor in interest, and _____ (the "Manager"), as amended prior to the date hereof and subsequently modified and amended pursuant to that certain Consent, Assignment and Assumption and Amendment of Management Agreement dated as of the Commencement Date, as modified and amended from time to time, by and among Landlord, Tenant and Manager (the "Consent and Assignment") (together with all past and future modifications and amendments thereto, the "Management Agreement"). Pursuant to the Consent and Assignment, Tenant has accepted such assignment and assumed and agreed to perform all of Landlord's obligations as "Owner" under the Management Agreement (including certain obligations of "Owner" that the Consent and Assignment expressly provides shall both apply to and be binding upon Tenant, and continue to apply to and be binding upon Landlord (as, but only to the extent, such obligations apply to Landlord, the "Continuing Obligations")), except for certain obligations of "Owner" that the Consent and Assignment expressly provides shall remain the sole obligations of Landlord (the "Retained Obligations"). Landlord hereby covenants to perform the Retained Obligations and the Continuing Obligations. In addition, Landlord shall be entitled, together with Tenant, to exercise the "Continuing Rights," as defined in the Consent and Assignment, and Tenant shall not be entitled to exercise any of the "Reserved Rights," as defined in the Consent and Assignment, which are reserved exclusively to Landlord.

21.3.2 Reversion upon Termination.

All of Landlord's rights, benefits and privileges with respect to the Management Agreement shall be vested in Tenant throughout the Term of this Lease; provided, however, that upon termination of this Lease, for whatever reason, all of Landlord's rights, benefits and privileges under the Management Agreement shall automatically revert to Landlord without the necessity of any action on the part of Landlord hereunder.

21.3.3 Compliance with Management Agreement and Indemnification.

To the extent that any of the provisions of the Management Agreement impose a greater obligation on Tenant than the corresponding provisions of this Lease, then Tenant shall be obligated to comply with, and to take all reasonable actions necessary to prevent breaches or defaults under, the provisions of the Management Agreement. Notwithstanding anything contained herein to the contrary, Tenant shall perform and comply in every respect with the provisions of the Management

Agreement. Notwithstanding anything contained herein to the contrary, Tenant shall perform and comply in every respect with the provisions of the Management Agreement, except for the Retained Obligations and Continuing Obligations, which shall remain the sole responsibility of Landlord, so as to avoid any default thereunder during the Term of this Lease. Tenant shall, at all times, direct and require Manager to perform all of Manager's obligations under the Management Agreement. Tenant shall protect, indemnify and hold harmless Landlord for, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and reasonable expenses (including, without limitation, reasonable attorneys' fees), to the maximum extent permitted by law, imposed upon, incurred by, or asserted against Landlord by reason of a default by Tenant under the Management Agreement, including, without limitation, any default by Tenant under the Management Agreement attributable to a failure by Tenant to perform its obligations under this Lease. Likewise, Landlord shall protect, indemnify and hold harmless Tenant for, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and reasonable expenses (including, without limitation, reasonable attorneys' fees), to the maximum extent permitted by law, imposed upon, incurred by, or asserted against Tenant by reason of a default by Landlord under the Management Agreement, including, without limitation, any default by Landlord under the Management Agreement attributable to a failure by Landlord to perform its obligations under this Lease. The obligations of Landlord and Tenant set forth in this Section 21.3.3 shall survive the termination of this Lease.

21.3.4 Consent Required for Certain Actions.

Without at least thirty (30) days prior written Notice to Landlord in the case of subsections (1), (2), (5), and (6) below, and without at least fifteen (15) days prior written Notice in the case of subsections (3) and (4) below, Tenant shall not take any of the following actions:

(1) terminate the Management Agreement prior to the expiration of the term thereof;

(2) amend, modify or assign its interest in (except in connection with an assignment permitted pursuant to Section 16.1 hereof) the Management Agreement;

(3) waive (or fail to enforce) any right of "Owner" under the Management Agreement;

(4) waive any breach or default by Manager under the Management Agreement (or fail to enforce any right of "Owner" in connection therewith);

(5) agree to any change in Manager or consent to any assignment by Manager; or

(6) take any other action which reasonably could be expected to materially adversely affect Landlord's rights or obligations under the Management

Agreement for periods following termination of this Lease (whether upon the expiration of its term or upon earlier termination as provided for herein).

Notwithstanding the foregoing, Tenant shall not take any of the actions listed in clauses (1) through (6) above without Landlord's prior written consent if such action:

(A) would materially impair the ability of Tenant to perform Tenant's obligations under this Lease (including, without limitation, make all payments of Rent as and when due under this Lease);

(B) would cause Tenant not to comply with the obligations of Tenant set forth in Section 4.1;

(C) would materially adversely affect the economic value of the Leased Property to Landlord;

(D) would waive, modify, eliminate or fail to enforce any territoriality or similar restriction or limitation; or

(E) would materially increase the legal exposure of Landlord to Manager under the Management Agreement during the Term, either by reason of Landlord's continuing liability to Manager pursuant to the Consent and Assignment, or with respect to the Retained Obligations or the Continuing Obligations.

21.3.5 Replacement of Manager.

Notwithstanding Section 21.3.4 above, Tenant shall not agree to change the management or the brand affiliation of the Facility without the prior approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. In addition, the proposed replacement manager shall be nationally recognized and shall have substantial experience managing hotels of comparable quality. No such replacement or change in brand affiliation shall continue beyond the Term hereof without the prior written approval of Landlord, which approval may be granted or withheld in Landlord's sole discretion.

21.4 Facility Mortgagee Agreement.

Tenant agrees to enter into an agreement with Landlord, any Facility Mortgagee and Host O.P. (the "Facility Mortgagee Agreement") pursuant to which, in consideration of Facility Mortgagee's consent to this Lease and the transactions contemplated hereby: (i) Tenant acknowledges to the Facility Mortgagee that the Working Capital purchased by Tenant with the Working Capital Note and all Excess FF&E acquired by Tenant from Landlord while the Facility Mortgage is in effect is subject to the Facility Mortgagee's first priority Lien (without Tenant assuming any liability for Landlord's obligations that are secured by or arise under any Facility Mortgage) and that the Facility Mortgagee's rights and remedies with respect to such Working Capital and Excess FF&E shall survive and be enforceable with respect thereto; (ii) Tenant covenants to the Facility Mortgagee to sign, provided Landlord shall prepare and file at its sole cost,

UCC-1 financing statements confirming the foregoing for notice purposes; (iii) Tenant covenants not to sell, lease, transfer or otherwise dispose of such Working Capital or Excess FF&E or any interest therein (other than in the ordinary course of business or other than to Landlord in accordance with the terms of this Lease upon the expiration or earlier termination of the Term), or grant or cause or permit to exist any lien, charge or encumbrance with respect thereto, other than the aforesaid Lien in favor of the Facility Mortgagee and any other Liens securing obligations which are the responsibility of Landlord; (iv) Landlord agrees that this Lease and the Working Capital Note will not be modified or amended in any manner that would adversely affect the Facility Mortgagee's collateral under the Facility Mortgage without the Facility Mortgagee's prior written consent; (v) Landlord and Tenant agree to confirm to the Facility Mortgagee that the Facility Mortgagee shall have the right to terminate this Lease in the event of a foreclosure by the Facility Mortgagee under the Facility Mortgage, pursuant to Article 20 hereof; (vi) Tenant agrees that, in the event of a foreclosure by the Facility Mortgagee under the Facility Mortgage, the Facility Mortgagee shall have the right to continue this Lease as lessor and succeed to all Landlord's rights hereunder and under the Security Agreement, provided that in such event the Facility Mortgagee recognizes Tenant's rights hereunder; (vii) if the Facility Mortgagee terminates this Lease in accordance with Article 20 hereof, (A) Tenant agrees, at the Facility Mortgagee's request, to convey all Working Capital existing at such time directly to the Facility Mortgagee or its designee in payment of the Working Capital Note (together with any cash balance due from Tenant in respect thereto), (B) Tenant agrees to look solely to Host O.P. for payment of any cash balance payable to Tenant for Working Capital to the extent such Working Capital exceeds the balance due under the Working Capital Note, and (C) Host O.P. agrees to pay such cash balance directly to Tenant, without the necessity of notice or demand on Landlord; and (viii) Tenant agrees that if the amount specified in Section 24.1(b) of this Lease and/or the Excess FF&E Reimbursement Amount become payable in connection with a foreclosure by the Facility Mortgagee under the Facility Mortgage, then (A) such amount(s) shall be paid first by offsetting any amounts owed by Tenant to Landlord, and the balance (if any) shall be paid by Host O.P. to Tenant in cash, (B) Host O.P. agrees to pay such cash balance (if any) directly to Tenant without the need for notice or demand on Landlord, and (C) Tenant agrees to look only to Host O.P. for payment of such cash balance.

21.5 [Intentionally Omitted.]

21.6 Single Purpose Entity Covenants.

21.6.1 Separate Existence

Tenant shall (i) maintain its books and records and bank accounts separate from any other person or entity (except that, for accounting and reporting purposes, Tenant may be included in the consolidated financial statements of any direct or indirect parent entity in accordance with GAAP); (ii) maintain an arm's length relationship with its members, Affiliates and any other party furnishing services to it; (iii) maintain its books, records, resolutions and agreements as official records; (iv) conduct its business in its own name and through its own authorized officers and agents; (v) maintain its financial statements, accounting records and other limited liability company documents separate from those of any other Person (except as provided in (i) above); (vi) pay its own liabilities

out of its own funds and other assets, including funds contributed to its capital by its equity holders, and all such capital contributions shall be reflected properly in its books and records; (vii) observe all limited liability company formalities, as applicable, necessary to maintain its identity as an entity separate and distinct from its members, Host O.P., and all other Affiliates; (viii) participate in the fair and reasonable allocation of any and all overhead expenses and other common expenses for facilities, goods or services provided to multiple entities; (ix) use its own stationery, invoices and checks (except when acting in a representative capacity); (x) 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 as provided in (i) above); and (xi) hold its assets in its own name.

21.6.2 Independent Member

Upon Notice from Landlord, Tenant shall have an Independent Member (who shall be a non-equity member) at all times, or if the Independent Member has withdrawn, Tenant shall not take any action which may not be taken pursuant to the organizational documents of Tenant without the consent of the Independent Member until such time as a replacement Independent Member has been admitted to Tenant.

21.6.3 Limitation on Indebtedness and Guarantees

Except pursuant to the Consent and Assignment or as otherwise expressly provided herein, Tenant shall not (i) incur, create or assume any Indebtedness of any kind; or (ii) guarantee or have any consensual contingent obligation for the obligations of any other Person; provided that, so long as no Event of Default has occurred and is continuing, Tenant may incur, create or assume any Permitted Debt (as defined below). As used herein, "Permitted Debt" shall mean:

(i) if no Default or Event of Default has occurred and is continuing, purchase money Indebtedness and capitalized lease obligations for the purchase or lease of FF&E in the ordinary course of business (and not inconsistent with customary industry practices), which Indebtedness may be secured by a first priority lien on the goods and equipment that have been so purchased or leased;

(ii) if no Event of Default has occurred and is continuing, unsecured Indebtedness owing to TRS or any wholly owned Subsidiary thereof, with respect to which the lender shall have agreed in writing, in form and substance satisfactory to Landlord, that payment of such Indebtedness shall be subordinated in all respects to performance of Tenant's obligations under this Lease and that no remedies may be exercised with respect to enforcement or collection of such Indebtedness until such time as this Lease shall have terminated and all obligations owed by Tenant hereunder shall have been discharged in full; and

(iii) if no Event of Default has occurred and is continuing, Indebtedness solely in respect of surety and appeal bonds, performance bonds and other obligations of a like nature (to the extent that such

incurrence does not result in the incurrence of any obligation to repay any obligation relating to borrowed money of others), all in the ordinary course of business in accordance with customary industry practices.

21.6.4 Distributions

Tenant shall make no distributions of cash or other assets to any of its members if an Event of Default has occurred and is continuing under Section 12.1(a) hereof.

21.6.5 Single Purpose

Tenant shall not have or create any Subsidiaries or hold any equity interest in any other Person. Tenant shall at all times be a Single Purpose entity.

Tenant shall not (i) engage in any business activity or operate for any purpose other than as stated in its Limited Liability Company Operating Agreement as in effect on the date hereof; (ii) without the consent of all its members, including the consent of an Independent Member, file a bankruptcy or insolvency petition or otherwise institute bankruptcy proceedings; or (iii) acquire any assets not reasonably related to the business and operation of the Facility.

21.6.6 Certain Fundamental Changes

Without the consent of Landlord and any Facility Mortgagee (if required), Tenant shall not (i) be a party to any merger or consolidation with any Person, or (ii) assign its rights under this Lease, or assign, transfer, or sell all or any substantial portion of its assets to any Person, in each case other than a Qualified Affiliate that is a Single Purpose entity, has no outstanding Indebtedness (other than Permitted Debt) and no Liens on any of its assets (other than Permitted Liens) at the time of such assignment, and assumes all of the obligations of Tenant hereunder. Without the consent of Landlord and any Facility Mortgagee, Tenant shall not adopt a plan of dissolution or liquidation or dissolve, wind up or liquidate. Without the approval of the Independent Member, Tenant shall not take any action for which the approval of the Independent Member is required under its organizational documents.

21.6.7 Amendments to Organizational Documents

Tenant shall not, in any manner, without the consent of Landlord and any Facility Mortgagee (if required), amend, modify or alter the terms of Sections 2.01, 2.02, 3.01, 5.14 (only paragraphs a, b, c, d and g thereof), 8.01, 10.01, 10.02 and 10.03 of the Limited Liability Company Operating Agreement of Tenant, as in effect on the date hereof.

21.6.8 Qualified Affiliate

Tenant shall, at all times during the Term of this Lease, be a Qualified Affiliate.

ARTICLE 22
LIMITATIONS

22.1 REIT Compliance.

Tenant acknowledges that Host REIT intends to qualify as a real estate investment trust under the Code. Tenant agrees that it will not knowingly or intentionally take or omit to take any action, or permit any status or condition to exist at the Leased Property, which Tenant actually knows (acting in good faith) would or could result in (i) the Rent payable under this Lease not qualifying as "rents from real property" as defined in Section 856(d) of the Code or (ii) Host REIT being disqualified from treatment as a real estate investment trust under the Code as the provisions exist on the date hereof; provided, however, that notwithstanding anything herein to the contrary, (i) Tenant shall not be responsible for any act or omission of Landlord or Manager (unless Manager's action was with the express written consent or at the direction of Tenant), and (ii) any action by Tenant taken in compliance with the express terms of this Lease, the Consent and Assignment, or the Management Agreement shall not be deemed to create a Default or Event of Default under this Section 22.1.

22.2 FF&E Limitation.

This Section 22.2 is intended to insure that all of the rent payable under this Lease qualifies as "rents from real property" within the meaning of Section 856(d) of the Code or any similar or successor provisions thereto. In furtherance of such purpose, the parties have agreed to the terms set forth in Schedule 22.2 attached hereto.

22.3 Sublease Rent Limitation.

Anything contained in this Lease to the contrary notwithstanding, from and after the Commencement Date, Tenant shall not knowingly or intentionally (acting in good faith) enter into any sublease with respect to the Leased Property or any part thereof on any basis such that the rental to be paid by the sublessee thereunder would be based (or considered to be based), in whole or in part, on either (a) the income or profits derived by the business activities of the sublessee, or (b) any other formula such that any portion of the rent payable hereunder would or could, to Tenant's actual knowledge (acting in good faith), fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provisions thereto.

22.4 Sublease Tenant Limitation.

Anything contained in this Lease to the contrary notwithstanding, Tenant shall not knowingly or intentionally (acting in good faith) sublease any Leased Property or any part thereof to any Person or Entity in which Landlord, Host O.P., or Host REIT owns, directly or indirectly, a ten percent (10%) or greater interest, within the meaning of Section 856(d)(2)(B) of the Code, or any similar or successor provisions thereto. Tenant shall take reasonable precautions in connection with each sublease (including providing Landlord with prompt Notice of the same) to ensure that such sublease will not result in a violation of this Section 22.4.

22.5 Tenant Ownership Limitation.

Anything contained in this Lease to the contrary notwithstanding, Tenant shall not knowingly or intentionally (acting in good faith), and shall use commercially reasonable efforts to cause its Affiliates not to knowingly or intentionally (acting in good faith), acquire, directly or indirectly, (a) a nine and 80/100 percent (9.8%) or greater interest in Landlord or Host REIT, or (b) a four and 90/100 percent (4.9%) or greater interest in Host O.P., within the meaning of Section 856(d)(2)(B) of the Code, or any similar or successor provisions thereto.

ARTICLE 23
MISCELLANEOUS

23.1 No Waiver.

No failure by either Landlord or Tenant to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. To the maximum extent permitted by law, no waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

23.2 Remedies Cumulative.

To the maximum extent permitted by law, each legal, equitable or contractual right, power and remedy of either party now or hereafter provided either in this Lease or by statute, or otherwise, shall be cumulative and concurrent and shall be in addition to every other right, power and remedy, and the exercise or beginning of the exercise by either party of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by such party of any or all of such other rights, powers and remedies.

23.3 Severability.

Any clause, sentence, paragraph, section or provision of this Lease held by a court of competent jurisdiction to be invalid, illegal or ineffective shall not impair, invalidate or nullify the remainder of this Lease, but rather the effect thereof shall be confined to the clause, sentence, paragraph, section or provision so held to be invalid, illegal or ineffective, and this Lease shall be construed as if such invalid, illegal or ineffective provisions had never been contained herein.

23.4 Acceptance of Surrender.

No surrender to Landlord of this Lease or of the Leased Property or any part thereof, or of any interest therein, shall be valid or effective unless agreed to and accepted in writing by Landlord, and no act by Landlord or any representative or agent of Landlord, other than such a written acceptance by Landlord, shall constitute an acceptance of any such surrender.

23.5 No Merger of Title.

It is expressly acknowledged and agreed that it is the intent of the parties that there shall be no merger of this Lease or of the leasehold estate created hereby by reason of the fact that the same Person may acquire, own or hold, directly or indirectly, this Lease or the leasehold estate created hereby and the fee estate or Superior Landlord's interest in the Leased Property.

23.6 Release of Landlord Following Conveyance.

If Landlord or any successor owner of all or any portion of the Leased Property shall convey all or any portion of the Leased Property in accordance with the terms hereof other than as security for a debt, and the grantee or transferee of the Leased Property shall expressly assume all obligations of Landlord hereunder arising or accruing from and after the date of such conveyance or transfer, Landlord or such successor owner, as the case may be, shall thereupon be released from all future liabilities and obligations of Landlord under this Lease with respect to such of the Leased Property arising or accruing from and after the date of such conveyance or other transfer, all such future liabilities and obligations shall thereupon be binding upon the new owner, and all references herein to Landlord thereafter shall be deemed to refer to the new owner.

23.7 Quiet Enjoyment.

Provided that no Event of Default shall have occurred and be continuing, Tenant shall peaceably and quietly have, hold and enjoy the Leased Property for the Term, free of hindrance or molestation by Landlord or anyone claiming by, through or under Landlord, but subject to (a) all Permitted Liens, (b) Liens as to obligations of Landlord that are either not yet due or which are being contested in good faith and by proper proceedings, provided the same do not materially interfere with Tenant's ability to operate the Facility, (c) Liens that have been consented to in writing by Tenant, and (d) Landlord's option to terminate this Lease pursuant to Article 24. Except as otherwise provided in this Lease, no failure by Landlord to comply with the foregoing covenant shall give Tenant any right to cancel or terminate this Lease or abate, reduce or make a deduction from or offset against the Rent or any other sum payable under this Lease, or to fail to perform any other obligation of Tenant hereunder.

23.8 Landlord's Consent.

Where provision is made in this Lease for Landlord's consent and Landlord shall fail or refuse to give such consent, except to the extent expressly provided herein to the contrary Tenant shall not be entitled to any damages for any withholding by Landlord of its consent, it being intended that Tenant's sole remedy shall be an action for specific performance or injunction and that such remedy shall be available only in those cases where Landlord has expressly agreed in writing not unreasonably to withhold its consent. Whenever in this Lease the consent or approval of Landlord or Tenant is required, such consent or approval shall (except to the extent that such consent or approval is specifically designated as being "within the discretion" of a party, or words to that effect, in the applicable provision) not be unreasonably withheld, conditioned or delayed, shall be in

writing and shall be executed by a duly authorized officer or agent of the party granting such consent or approval; provided, however, that Landlord shall be deemed to have reasonably withheld its consent in the event any Facility Mortgagee withholds its consent or otherwise objects to any proposed consent or approval. With respect only to the matters set forth on Schedule 23.8, if either
---

Tenant or Landlord fails to respond within fifteen (15) days (or such shorter or longer period of time as may be expressly specified in this Lease) to a request in the form of a Notice by the other party for a consent or approval, such consent or approval shall be deemed to have been given.

23.9 Memorandum of Lease.

Unless required by Legal Requirements, neither Landlord nor Tenant shall record this Lease. However, Landlord and Tenant shall promptly, upon the request of the other, enter into a short form memorandum of this Lease, in form suitable for recording under the laws of the State in which reference to this Lease, and all options contained herein, shall be made. The requesting party shall bear the costs and expenses of recording such memorandum. If a memorandum of this Lease is required by Legal Requirements to be recorded, the parties shall share equally the costs and expenses of recording such memorandum.

23.10 Notices.

(a) Any and all notices, demands, consents, approvals, offers, elections and other communications required or permitted under this Lease shall be deemed adequately given if in writing and the same shall be delivered either in hand, by telecopier with computer generated acknowledgment of receipt, or by mail or Federal Express or similar expedited commercial carrier, addressed to the recipient of the notice, postpaid and certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier).

(b) All notices required or permitted to be sent hereunder shall be deemed to have been given for all purposes of this Lease upon the date of acknowledged receipt, in the case of a notice by telecopier, and, in all other cases, upon the date of receipt or refusal, except that whenever under this Lease a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

(c) All such notices shall be addressed:

If to Landlord to:

---

c/o Host Marriott Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attn: W. Edward Walter
Fax: (301) 380-6533

with a copy (which shall not constitute notice) to:

Host Marriott Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attn: General Counsel
Fax: (301) 380-6332

If to Tenant to:

---

c/o HMT Lessee LLC
c/o Host Marriott, L.P.
10400 Fernwood Road
Bethesda, Maryland 20817
Attn: General Counsel
Fax: (301) 380-6332

with a copy (which shall not constitute notice) to:

Host Marriott, L.P.
10400 Fernwood Road
Bethesda, Maryland 20817
Attn: Executive Vice President and Treasurer
Fax: (301) 380-6533

(d) By notice given as herein provided, the parties hereto and their respective successors and assigns shall have the right from time to time and at any time during the Term of this Lease to change their respective addresses effective upon receipt by the other parties of such notice and each shall have the right to specify as its address any other address within the United States of America.

23.11 Construction.

Anything contained in this Lease to the contrary notwithstanding, all claims against, and liabilities of, Tenant or Landlord arising prior to any date of termination or expiration of this Lease shall survive such termination or expiration. In no event shall either party be liable for any punitive or consequential damages as the result of a breach of this Lease by such other party. Neither this Lease nor any provision hereof may be changed, waived, discharged or terminated except by an instrument in writing signed by the party to be charged. All the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Each term or provision of this Lease to be performed by Tenant or Landlord shall be construed as an independent covenant and condition. Time is of the essence with respect to the exercise of any rights of, and performance of any obligations by, Tenant or Landlord under this Lease. Except as otherwise set forth in this Lease, any obligations of Tenant and Landlord (including, without limitation, any monetary, repair and indemnification obligations) shall survive the expiration or sooner termination of this Lease.

23.12 Counterparts; Headings.

This Lease may be executed in two or more counterparts, each of which shall constitute an original, but which, when taken together, shall constitute but one instrument and shall become effective as of the date hereof when copies hereof, which, when taken together, bear the signatures of each of the parties hereto shall have been signed. Headings in this Lease are for purposes of reference only and shall not limit or affect the meaning of the provisions hereof.

23.13 Governing Law; Jurisdiction.

(a) This Lease shall be interpreted, construed, applied and enforced in accordance with the laws of the State applicable to contracts between residents of the State, which are to be performed entirely within the State, and the laws of the State shall apply to the perfection and priority of liens upon and the disposition of and disposition with respect to the Leased Property and in any case regardless of (i) where this Lease is executed or delivered; or (ii) where any payment or other performance required by this Lease is made or required to be made; or (iii) where any breach of any provision of this Lease occurs, or any cause of action otherwise accrues; or (iv) where any action or other proceeding is instituted or pending; or (v) the nationality, citizenship, domicile, principal place of business, or jurisdiction of organization or domestication of any party; or (vi) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than the State; or (vii) any combination of the foregoing.

(b) To the maximum extent permitted by applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Lease may be brought and prosecuted only in the court or courts located in the State of Maryland; and the parties consent to the jurisdiction of said court or courts located in the State of Maryland and to service of process by certified mail, return receipt requested, or by any other manner provided by law.

23.14 No Broker.

Each party hereby represents and warrants to the other that it has not engaged, dealt with or otherwise discussed this transaction with any broker, agent or finder. Each party agrees to indemnify and hold the other harmless from and against any claim arising out of a breach of the foregoing agreement and representation and warranty.

23.15 Related Agreements.

[(a)] Anything herein to the contrary notwithstanding, neither Landlord nor Tenant shall take any action, or fail to take any action, which would constitute a breach or default under (i) any Facility Mortgagee Agreement, (ii) the Security Agreement, or (iii) the Consent and Assignment (collectively, any Facility Mortgagee Agreement, the Security Agreement, and the Consent and Assignment are sometimes referred to herein as the "Related Agreements").

[(b) Anything herein to the contrary notwithstanding, Tenant shall not take any action that would constitute a breach or default of the Landlord under any Superior Lease listed on Schedule 20.3.]

23.16 Legal Fees and Costs of Litigation.

In the event either party to this Lease commences legal action of any kind to enforce the terms and conditions of this Lease, the prevailing party in such litigation will be entitled to collect from the other party all reasonable costs, expenses and attorneys' fees incurred in connection with such action.

23.17 Force Majeure.

If Landlord or Tenant is in any way delayed or prevented from performing any obligation, except any monetary obligation, hereunder due to acts of God, acts of war, civil disturbance, action of any Governmental Agency (including the revocation or refusal to grant licenses or permits, where such revocation or refusal is not due to the fault of the party whose performance is to be excused for reasons of force majeure), strikes, fire or other Casualty, or any other cause beyond the reasonable control of either party (as applicable), then the time for performance of such obligation shall be excused for the period of such delay or prevention and extended for a period equal to the period of such delay, interruption or prevention.

23.18 Conflicts with Related Agreements.

In the event of any conflict or inconsistency between this Lease and any of the Related Agreements or the Asset Management Agreement, the terms of any of the Related Agreements or the Asset Management Agreement shall govern. Notwithstanding the foregoing, in the event of any conflict or inconsistency between this Lease and the Consent and Assignment, as they relate to the respective rights and obligations of Landlord and Tenant, the terms of this Lease shall govern.

23.19 Operating Lease.

The parties hereto intend that this Lease shall be deemed for all purposes to be an operating lease and not a capital lease.

23.20 Limitation of Liability.

Any liability of Landlord under this Lease shall be limited solely to its interest in the Leased Property, including without limitation any net sales proceeds, and in no event shall any personal liability be asserted against Landlord, any of its partners, shareholders or members, as the case may be, in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

23.21 Joinder of Host O.P.

Landlord hereby acknowledges that, notwithstanding the joinder of Host O.P. for the specified purpose set forth above its signature below, Landlord shall remain liable for all obligations, covenants and conditions of the Landlord under this Lease.

ARTICLE 24
LEASEHOLD INTEREST PURCHASE RIGHTS; EFFECT OF TERMINATION

24.1 Landlord's Right to Purchase or Cause an Affiliate to Purchase Tenant's Leasehold Interest upon Sale.

(a) In the event Landlord enters into a bona fide contract to sell the Leased Property to a non-Affiliate, Landlord may purchase or cause an Affiliate to purchase Tenant's interest in this Lease by giving not less than sixty (60) days prior Notice to Tenant of Landlord's election to purchase or to cause an Affiliate to purchase Tenant's interest in this Lease concurrently with or immediately prior to the closing under such contract. Landlord, in the event it enters into a bona fide contract to sell the Leased Property to a non-Affiliate, and subject to the restrictions set forth in Section 20.4, shall alternatively be permitted to transfer the Leased Property subject to the Lease, provided, however, that the parties shall make such reasonable modifications, if any, hereto as shall be necessary or appropriate in connection with such transfer, including, without limitation, termination or modification of the Related Agreements and/or the Asset Management Agreement as they relate to this Lease, but no amendment hereto shall (i) increase Tenant's rental obligations or other financial obligations hereunder, (ii) have a material adverse effect upon Tenant's rights hereunder, (iii) materially increase Tenant's non-economic obligations hereunder, or (iv) decrease Landlord's obligations hereunder; and provided further that in such event Landlord shall not, without the consent of Tenant, transfer the Leased Property or any interest therein to any Person which (A) does not have sufficient financial resources and liquidity to fulfill "Owner's" obligations under the Management Agreement and Landlord's obligations under this Lease, or (B) who has been, or is in control of, controlled by or under common control with Persons who have been, convicted of felonies involving moral turpitude in any state or federal court.

(b) The purchase price for Landlord's (or Landlord's Affiliate's) purchase of Tenant's leasehold estate under this Article 24 shall be payable at closing in cash and shall be an amount equal to the lesser of (A) the Fair Market Value of Tenant's leasehold estate hereunder (excluding any Renewal Term, exercised or unexercised) as of such closing or (B) the purchase price, reduced by all amounts reflected as deductions for federal income tax purposes for such purchase price, as of such closing, allocated to the purchase

by TRS of the direct or indirect ownership interest in Tenant (as derived from the original purchase price for the ownership interest in Tenant set forth on Schedule C of that certain Acquisition and Exchange Agreement, entered into among Crestline Capital Corporation, a Delaware corporation, TRS and various Affiliates of such parties, and dated as of November 13, 2000). Alternatively, in lieu of payment of the purchase price at such closing, at Landlord's election, Landlord shall have the right, exercisable not more than one (1) year prior to the anticipated closing date and in any event not later than sixty (60) days prior to the closing of such sale, to offer to lease to Tenant, pursuant to one or more leases, one or more substitute hotel facilities (a "Comparable Lease") that (A) are comparable, in Tenant's commercially reasonable judgment, to the average quality of the properties leased pursuant to the Other Leases, taking into consideration the age, physical condition, location and other relevant factors, and (B) would create for Tenant leasehold estates having an aggregate Fair Market Value as to that portion of its term equal to the remaining Term (excluding any Renewal Term, whether exercised or unexercised) hereunder of no less than the Fair Market Value of the remaining Term hereunder (excluding any Renewal Term, whether exercised or unexercised), both such values to be determined as of the closing of the sale of the Leased Property. It is the intent of the parties that the Comparable Lease shall result in substantially the same ratio between Tenant's Operating Profit and Rent as then exists under this Lease for the Fiscal Year immediately preceding the sale. For the purposes of determining the Fair Market Value for purposes of this Section 24.1 or pursuant to any other Section of this Lease providing for such compensation of Tenant upon a Lease termination or purchase of Tenant's leasehold estate, a discount rate of twelve percent (12%) per annum will be used, and the annual income for the remainder of the Term (excluding any Renewal Term, whether exercised or unexercised) will be assumed to be equal to the average Tenant Operating Profit generated during the three (3) Fiscal Years immediately preceding the termination date or date of the transfer of Tenant's leasehold estate, as applicable, or if three (3) Fiscal Years have not elapsed since the Commencement Date, the average during the preceding Fiscal Years that have elapsed (with the annual income for each of such Fiscal Years escalated from the end of each such Fiscal Year to the date of determination at the rate of inflation before such average is determined), provided that this amount shall be determined on a pro forma basis if the Leased Property has not operated as a hotel for at least the preceding twelve (12) months. In the event Landlord and Tenant are unable to agree upon the Fair Market Value of the original leasehold estate (excluding any Renewal Term, whether exercised or unexercised) or the proposed Comparable Lease leasehold estate, it shall be determined by arbitration pursuant to the procedure set forth in Article 15. The parties agree that, if Landlord elects to offer to enter into a Comparable Lease, to the extent that the Fair Market Value of the Comparable Lease is less than the Fair Market Value of the original leasehold estate, calculated as set forth above, then Landlord shall compensate Tenant in cash for the deficiency prior to the effective date of the transfer of Tenant's leasehold estate.

(c) Notwithstanding the provisions of Section 24.1(b), Landlord shall be entitled to terminate this Lease in connection with a sale or other transfer of the Leased Property to an unrelated Person or a Person in which Host O.P. owns, directly or indirectly, less than two thirds of the equity interests, without payment of any termination fee, by giving not less than sixty (60) days prior written Notice to Tenant, provided that the landlords under the Other Leases (excluding this Lease and the leases applicable to

properties commonly known as Minneapolis, MN (Airport/Bloomington), Denver, CO (Southeast), and Saddle Brook, NJ) relating to an aggregate of fewer than twelve (12) hotels have elected to terminate such Other Leases (excluding this Lease and the leases applicable to properties commonly known as Minneapolis, MN (Airport/Bloomington) Denver, CO (Southeast), and Saddle Brook, NJ) without payment of a termination fee.

(d) Host O.P. agrees to guarantee Landlord's obligation to pay to Tenant the compensation for (i) termination by a Superior Mortgagee or Superior Landlord under Section 20.2, (ii) termination of this Lease following a Casualty pursuant to Section 10.2.3, or (iii) termination of this Lease by Tenant by reason of Landlord's election not to make an Award available to Tenant for restoration following a Condemnation pursuant to Section 11.2; provided that at the time of any such termination Landlord is a wholly owned direct or indirect subsidiary of Host O.P., and if Landlord is then partially owned, directly or indirectly, by Host O.P., Host O.P. shall guaranty that portion of such compensation that represents the same percentage of the total compensation payable as Host O.P.'s direct or indirect percentage ownership interest in Landlord.

24.2 [Intentionally Omitted.]

24.3 [Intentionally Omitted.]

24.4 Effect of Termination.

Effective upon the date of closing of the sale of Tenant's interest in this Lease or upon the termination date as set forth in any Notice provided by the terminating party, Tenant's rights and obligations under this Lease shall terminate and be of no further force and effect (and, if this Lease is terminated, Landlord's rights and obligations hereunder shall likewise terminate) except as to any obligations of the parties existing as of such date that survive termination of this Lease or transfer of Tenant's leasehold interest under this Lease, and all Rent, including Percentage Rent and Additional Charges, shall be adjusted as of the closing or termination date.

IN WITNESS WHEREOF, the parties have executed this Lease as a sealed instrument as of the date above first written.

LANDLORD:

Attest:

By: ----------

Name: ----------

Title: ----------

Name: ----------

Title: ----------

TENANT:

Attest:

By: ----------

Name: ----------

Title: ----------

Name: ----------

Title: ----------

Not as a party, but solely to acknowledge and agree to the obligations imposed upon it by Sections 4.5, 20.2, 21.4 and 24.1(d) and Schedule 22.2[If ----------
Host L.P. is also Landlord-add ", which obligations are binding on Host Marriott, L.P., in its individual capacity without regard to its status now or in the future as "Landlord" under this Lease"].

HOST MARRIOTT, L.P.,
a Delaware limited partnership

Attest:

By: ----------

Name: ----------

Title: ----------

Name: ----------

Title: ----------

EXHIBIT A

THE LAND

[See Attached]

EXHIBIT B

[INTENTIONALLY OMITTED]

EXHIBIT C

[INTENTIONALLY OMITTED]

EXHIBIT D

[INTENTIONALLY OMITTED]

EXHIBIT E

FORM OF
WORKING CAPITAL NOTE AND AGREEMENT

This Working Capital Note and Agreement (this "Note and Agreement") is made as of the ____ day of _____, 199___, by _____, a _____ (the "Maker"), and _____, a _____ (the "Holder").

WHEREAS, the Maker and the Holder are parties to that certain Lease Agreement, dated as of _____, 1998 (as the same may be amended, supplemented or otherwise modified from time to time, the "Lease");

WHEREAS, pursuant to the Lease, the Holder is selling to the Maker on the date hereof the Working Capital (as defined in the Lease) existing as of the Commencement Date (as defined in the Lease) of the Lease (the "Initial Working Capital");

WHEREAS, the parties desire to enter into this Note and Agreement for the purpose, among others, of evidencing the obligation of the Maker to pay to the Holder the purchase price of the Initial Working Capital, together with interest thereon, as more fully hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the agreements hereinafter set forth, the parties hereto hereby agree as follows:

1. FOR VALUE RECEIVED, the Maker promises to pay to the order of the Holder, at the address specified on Schedule A attached hereto ("Schedule A"), or at such other place as the Holder of this Note and Agreement may from time to time designate, the principal amount specified on Schedule A (the "Principal Amount"), together with interest on the Principal Amount from the date hereof until paid in full.

Such interest shall accrue at the rate, be calculated in the manner, and be due and payable at the times, provided in Schedule A. All interest payments shall be in cash, except as otherwise provided in the next paragraph.

The Principal Amount and all accrued and unpaid interest thereon shall be due and payable in full, in the manner set forth hereinbelow, upon the expiration or earlier termination of the Lease for any reason (including, without limitation, a termination of the Lease by the Facility Mortgagee (as defined in the Lease) in accordance with the terms of the Lease or this Note and Agreement). The date on which such expiration or termination occurs is sometimes hereinafter referred to as the "Maturity Date." Payment of the Principal Amount and all accrued and unpaid interest thereon shall be made as follows: (i) the Maker shall assign, transfer and deliver to the Holder title to all Working Capital owned by the Maker on the Maturity Date by means of one or more written instruments reasonably satisfactory in form and content to the Holder; and (ii) to the extent that the Principal Amount and all accrued and unpaid interest thereon exceeds the fair market value of such Working Capital so assigned, transferred and delivered by the Maker to the Holder (which the Maker and the Holder agree shall be equal to the book value of such

Working Capital, after taking into account any depreciation as of the Maturity Date) (the "Fair Market Value"), the Maker shall pay to the Holder on the Maturity Date an amount in cash equal to the amount of such excess (the "Maker True-Up Amount"). Title to the Working Capital so assigned, transferred and delivered to the Holder shall be free and clear of any security interests, liens and other encumbrances of any nature whatsoever created by the Maker or arising in respect of any obligation of the Maker or arising by reason of any act or omission of the Maker.

All payments of cash hereunder shall be made in lawful money of the United States of America and, except as otherwise provided in a written agreement between the Maker and the Holder, without offset.

This Note and Agreement may not be prepaid in whole or in part.

The occurrence of one or more of the following events shall constitute an event of default ("Event of Default") hereunder: (i) the failure to make any payment in cash of interest hereunder when due on any interest payment date (other than the Maturity Date) if such failure continues for a period of 10 days after the due date therefor, or (ii) the failure to make any payment (in cash or in kind, as applicable) of all or any portion of the Principal Amount and all accrued and unpaid interest thereon on the Maturity Date.

Upon the occurrence of an Event of Default, the Holder shall have the option to terminate the Lease. In addition, the interest rate otherwise applicable pursuant to Schedule A shall be increased by two hundred basis points
----
(two (2) percentage points (2%)) per annum from the date of the Event of Default until the date on which all obligations of the Maker pursuant to this Note and Agreement are paid (in cash or in kind, as applicable) in full. The rights and remedies provided in this paragraph are in addition to, and not in limitation of, any other rights and remedies that the Holder may have with respect to an Event of Default; it being agreed that all such rights and remedies shall be cumulative.

The Maker promises to pay all reasonable costs and expenses (including without limitation reasonable attorneys' fees and disbursements) incurred by Holder in connection with the collection or enforcement hereof.

The Maker hereby waives presentment, protest, demand, notice of dishonor and all other notices, and all defenses and pleas on the grounds of any extension or extensions of the time of payments or the due date of this Note and Agreement, before or after maturity, with or without notice. No renewal or extension of this Note and Agreement, and no delay in enforcement of this Note and Agreement or in exercising any right or power hereunder, shall affect the liability of the Maker.

Whenever used herein, the words "Maker" and "Holder" shall be deemed to include their respective successors and assigns.

2. In the event the Maker has satisfied all of its obligations pursuant to Section 1 hereof and the Fair Market Value exceeds the Principal Amount and all accrued and unpaid interest thereon, the Holder shall pay to the Maker on the Maturity Date an amount in cash equal to the amount of such excess (the "Holder True-Up Amount").

3. Notwithstanding anything to the contrary set forth above, in the event that the Lease is terminated by the Facility Mortgagee pursuant to the terms thereof, the Maker agrees that it shall transfer title to the Working Capital owned by it on the Maturity Date (and pay any Maker True-Up Amount payable by it under Section 1 hereof) directly to the Facility Mortgagee or its designee and that it shall look only to Host Marriott, L.P., a Delaware limited partnership, for payment of any Holder True-Up Amount payable pursuant to Section 2 hereof.

4. This Note and Agreement shall be governed by and construed under and in accordance with the laws of the State of Maryland (but not including the choice of law rules of such jurisdiction).

IN WITNESS WHEREOF, each of the parties hereto has caused this Note and Agreement to be duly executed on its behalf by its duly authorized representative on the date first set forth above.

[MAKER]

[HOLDER]

Schedule A to Working Capital
Note and Agreement

1. Address at which payments and deliveries are to be made by the Maker pursuant to Section 1:

---

c/o Host Marriott Corporation
10400 Fernwood Road
Bethesda, Maryland 20817
Attention: Corporate Accounting

2. Principal amount:1
-

---

3. Interest rate: 5.12% per annum

4. Interest shall be computed on the basis of a 365/6 day year and applied to the actual number of days elapsed.

5. Accrued interest shall be due and payable on the date on which payment of Rent (as defined in the Lease) is due and payable under the Lease with respect to each Accounting Period (as defined in the Lease) pursuant to Section 3.1.1 of the Lease, whether or not any Rent is paid on such due date.

- ---

1 The fair market value (which the parties agree will be the book value) of the Working Capital transferred by the Holder to the Maker at the commencement of the Lease.

SCHEDULE 2.2(a)(vi)

EXCLUDED LEASES

[INTENTIONALLY LEFT BLANK]

SCHEDULE 3.1.1

MINIMUM RENT

Minimum Rent for the first Fiscal Year shall be $_____.

SCHEDULE 3.1.2

REVENUE PERCENTAGE AND BREAK POINTS

First Tier Room Revenue Percentage

Annual Room Revenues First Break Point

Second Tier Room Revenue Percentage

Annual Room Revenues Second Break Point

Third Tier Room Revenue Percentage

First Tier Food and Beverage Sales Percentage

Annual Food and Beverage Sales First Break Point

Second Tier Food and Beverage Sales Percentage

Annual Food and Beverage Sales Second Break Point

Third Tier Food and Beverage Sales Percentage

First Tier Telephone Income Percentage

Annual Telephone Income Break Point

Second Tier Telephone Income Percentage

First Tier Gift Shop Income Percentage

Annual Gift Shop Income Break Point

Second Tier Gift Shop Income Percentage

First Tier Other Income Percentage

Annual Other Income Break Point

Second Tier Other Income Percentage

Schedule 3.1.3(b)

ITEMS OF GROSS REVENUES

[INTENTIONALLY LEFT BLANK]

SCHEDULE 3.1.5(e)

PREPAID EXPENSES

[INTENTIONALLY LEFT BLANK]

SCHEDULE 5.1.1

EXISTING CONDITIONS RELATING TO HAZARDOUS MATERIALS

SCHEDULE 17.2(f)

PERIOD REPORT FORMAT

[SEE ATTACHED]

SCHEDULE 20.3

SUPERIOR MORTGAGEE(S) AND SUPERIOR LANDLORD(S)

SCHEDULE 22.2

PROVISIONS RELATING TO EXCESS FF&E

(a) This Schedule 22.2 is intended to insure that all of the rent payable under this Lease qualifies as "rents from real property" within the meaning of Section 856(d) of the Code or any similar or successor provisions thereto. In furtherance of such purpose, the parties have agreed to the terms set forth in the following paragraphs of this Schedule 22.2 with the objective that, anything contained in this Lease to the contrary notwithstanding, the average of the adjusted tax basis of the items of "personal property" (within the meaning of Section 856(d)(i)(C) of the Code) that are leased to Tenant under this Lease at the beginning and at the end of any calendar year shall not exceed fifteen percent (15%) of the average of the aggregate adjusted tax bases of the Leased Property at the beginning and at the end of each such calendar year (the "FF&E Limitation"). The provisions contained in the following paragraphs shall be interpreted in a manner consistent with the intent and objective described above (it being understood that this paragraph constitutes a statement of the parties' mutual intent only and that the failure to achieve such objective, absent any Default or Event of Default under the other paragraphs of this Schedule 22.2 or any other provisions of this Lease, shall not constitute a Default or an Event of Default hereunder). [In order to avoid exceeding the FF&E Limitation at the commencement of this Lease, Tenant has entered into an Excess FF&E Lease (as defined below) with Host Subsidiary for certain Excess FF&E (as defined below) more specifically described therein that Landlord has sold to Host Subsidiary and that is now owned by Host Subsidiary (the "Initial FF&E Lease").]

(b) If Landlord reasonably anticipates and gives Notice (an "Excess FF&E Notice") and reasonably satisfactory evidence to Tenant that the FF&E Limitation might be exceeded with respect to the Leased Property for any Fiscal Year, Tenant shall, in accordance with the provisions set forth below and within sixty (60) days following the delivery of such Excess FF&E Notice, either (a) purchase from Landlord those items or categories of FF&E to be acquired by Landlord during such Fiscal Year which are designated in such Excess FF&E Notice as anticipated to cause Landlord to exceed the FF&E Limitation ("Excess FF&E") or (b) arrange for Host Subsidiary or another third party (in either case, a "Third-Party Purchaser") to purchase such Excess FF&E from Landlord and to lease it to Tenant pursuant to a written lease agreement between such Third-Party Purchaser and Tenant (an "Excess FF&E Lease") that shall include the terms specified for an Excess FF&E Lease in this Schedule 22.2 and in Schedule 22.2-A hereto (it being understood that, without limiting the foregoing, Landlord and Tenant intend that each Excess FF&E Lease be structured in a manner intended to avoid the classification of Tenant's obligations thereunder as Capitalized Lease Obligations).

(c) Upon receiving an Excess FF&E Notice, Tenant shall first offer to Host Subsidiary the opportunity to purchase from Landlord the Excess FF&E designated therein and to lease same to Tenant pursuant to an Excess FF&E Lease. Each Excess FF&E Lease with Host Subsidiary shall provide for an annual rental in an amount equal to the mathematical product of (i) the applicable Market Leasing Factor (as defined below) for all Excess FF&E subject to such Excess FF&E Lease multiplied by (ii) the Excess FF&E Value (as defined below) of the Excess FF&E subject to such Excess FF&E Lease.

(d) If Host Subsidiary does not agree to purchase and lease all the Excess FF&E which is the subject of an Excess FF&E Notice within fifteen (15) days after the date it receives Tenant's offer with respect thereto, then Tenant shall either purchase such Excess FF&E from Landlord for Tenant's own account or shall arrange for another Third-Party Purchaser that has satisfied the requirements of paragraph (j) of this Schedule 22.2 to purchase such Excess FF&E from Landlord and lease it to Tenant pursuant to an Excess FF&E Lease. If a Third-Party Purchaser that has satisfied the requirements of paragraph (j) of this Schedule 22.2 shall not have purchased such Excess FF&E from Landlord and leased it to Tenant under an Excess FF&E Lease within forty-five (45) days after Landlord's delivery of the Excess FF&E Notice relating thereto, then Tenant shall itself purchase such Excess FF&E from Landlord as and when (but only after) Landlord takes title to such Excess FF&E. Tenant shall purchase, or shall cause each Third-Party Purchaser to purchase, Excess FF&E with the purchaser's own funds.

(e) With respect to any Excess FF&E first leased or purchased by Tenant pursuant to the terms of this Schedule 22.2 during a particular calendar year, Tenant's annual Rent obligations shall be reduced in the following manner (the "FF&E Adjustment"):

(i) For the calendar year in which such Excess FF&E is first placed in service by either Tenant or a Third-Party Purchaser, such reduction shall be in an amount (the "First Year FF&E Adjustment") equal to the mathematical product of (A) the Market Leasing Factor (as defined below) for personal property with an average expected useful life corresponding to the weighted average expected useful life (as determined in accordance with GAAP and rounded to the nearest whole year) of all Excess FF&E first placed in service by Tenant or a Third-Party Purchaser during such calendar year (such weighted average, the "Applicable Expected Life") times (B) the Excess FF&E Cost (as defined below) of all Excess FF&E first placed in service by Tenant or a Third-Party Purchaser during such calendar year times (C) either (x) 100% if Tenant leases such Excess FF&E from Host Subsidiary or (y) 110% if Tenant purchases such Excess FF&E or leases such Excess FF&E from a Third-Party Purchaser other than Host Subsidiary times (D) 50%;

(ii) For each subsequent calendar year prior to the calendar year in which the Applicable Expected Life for such Excess FF&E expires, such reduction shall be in an amount equal to twice the First Year FF&E Adjustment; and

(iii) For the calendar year in which the Applicable Expected Life for such Excess FF&E expires, such reduction shall be in an amount equal to the First Year FF&E Adjustment.

It is contemplated that there would be a separate FF&E Adjustment for all Excess FF&E first placed in service during a single calendar year (with such FF&E Adjustment extending for a period equal to the lesser of the remaining Term or the Applicable Expected Life of the Excess FF&E acquired during such calendar year). The Rent payable by Tenant

for each Accounting Period in a calendar year to which one or more FF&E Adjustments apply shall be reduced by an amount equal to the mathematical product of (i) the amount of such applicable FF&E Adjustment (or if more than one FF&E Adjustment apply in such calendar year, the sum of such applicable FF&E Adjustments) times (ii) a fraction, the numerator of which is one and the denominator of which is the number of Accounting Periods in such calendar year. The "Excess FF&E Value" of any Excess FF&E shall be the fair market value of such Excess FF&E (which shall be the purchase price paid by the purchaser thereof from Landlord, whether such purchaser is Host Subsidiary, another Third Party Purchaser or Tenant) plus the aggregate amount of out-of-pocket transactional costs (including, without limitation, reasonable attorneys' fees and any ad valorem, sales, transfer, transaction or similar tax, levy or other governmental charge) incurred by such purchaser in connection with its purchase of such Excess FF&E. The "Market Leasing Factor" (with there to be a separate Market Leasing Factor for each whole number of years of expected useful life of Excess FF&E) shall be determined by an independent valuation expert, acceptable to both Landlord and Tenant, who shall determine the Market Leasing Factors based on the median of the leasing rates of at least three nationally recognized companies engaged in the business of leasing similar FF&E or personal property and equipment with average expected useful lives equal to the weighted average of the expected useful lives set forth on Schedule 22.2-B. The cost of such
---

expert shall be borne by Landlord. The Market Leasing Factors shall take into account any use taxes and similar Impositions payable by Tenant in connection with its leasing of Excess FF&E under the relevant Excess FF&E Leases, as well as the reasonably estimated anticipated out-of-pocket cost (including reasonable attorneys' and accountants' fees) to Tenant of administering such Excess FF&E Leases during the Term, so that the economic burden of such Impositions and administration costs will be borne by Landlord. The "Excess FF&E Cost" of any Excess FF&E shall be the Excess FF&E Value of such Excess FF&E plus, if Tenant leases such Excess FF&E from a Third-Party Purchaser, the aggregate amount of out-of-pocket transactional costs (including, without limitation, reasonable attorneys' fees and any ad valorem, sales, transfer, transaction or similar tax, levy or other governmental charge) incurred by Tenant in connection with its entry into an Excess FF&E Lease of such Excess FF&E in accordance with this Schedule 22.2.
- ---

(f) Landlord and Tenant agree to cause Manager to purchase all Excess FF&E for Landlord's account with funds from the FF&E Reserve (or with funds otherwise made available by Landlord). The parties specifically intend (and Tenant hereby agrees to take such reasonable steps at Landlord's expense as Landlord may request to insure) that Landlord shall own all Excess FF&E for a period of time sufficient to permit such Excess FF&E to become subject to any then existing Liens in favor of the Facility Mortgagee that encumber FF&E acquired by Landlord; provided, however, that in no event shall Landlord own any Excess FF&E (i) for more than five (5) Business Days, or (ii) so long that the FF&E Limitation would be exceeded at the beginning or end of any calendar year. Without limiting Tenant's obligation under the immediately preceding sentence to take reasonable steps requested by Landlord (at Landlord's expense) to achieve the objective set forth therein, it is understood and agreed that the failure to achieve such objective, absent any Default or Event of Default under the other provisions of this Schedule 22.2 or any other provisions of this Lease, shall
---

not constitute a Default or an Event of Default hereunder. Every purchase of Excess FF&E from Landlord, whether by Tenant or a Third-Party Purchaser, shall be made expressly subject to any and all Liens encumbering such Excess

FF&E in favor of any Facility Mortgagee. Following the purchase of any Excess FF&E by Tenant or a Third-Party Purchaser as contemplated by this Schedule 22.2, Landlord shall not be considered to own or be the lessor of any of such Excess FF&E during the Term of this Lease for any purpose, nor shall any of such Excess FF&E be considered part of the Leased Property, and neither Landlord nor Tenant shall at any time take a position (in its books and records or otherwise) or make an assertion inconsistent therewith.

(g) In the event that Tenant owns any Excess FF&E at the expiration or earlier termination of this Lease (including, without limitation, a termination in connection with a transfer of ownership of the Leased Property), Landlord shall purchase from Tenant and Tenant shall sell to Landlord (the "Excess FF&E Repurchase"), on the effective date of such expiration or termination, all such Excess FF&E (except for any Excess FF&E to which the terms of paragraph (i) of this Schedule 22.2 apply) for a purchase price equal to the fair market value (which the parties hereby agree shall not be less than the adjusted book value) of such Excess FF&E at such time (the "Excess FF&E Repurchase Price"). The Excess FF&E Repurchase Price shall be payable first by offset against any Rent owed by Tenant to Landlord as of such time and any amounts owed by Tenant to Landlord as of such time under the Working Capital Note, and the remainder (if any) shall be paid by Landlord to Tenant in cash within ten (10) days after the expiration or termination of this Lease.

(h) In the event that Tenant is leasing any Excess FF&E from a Third-Party Purchaser at the expiration or earlier termination of this Lease (including, without limitation, a termination resulting in connection with a transfer of ownership of the Leased Property), Landlord shall purchase and assume from Tenant, and Tenant shall sell, assign and delegate to Landlord, on the effective date of such expiration or termination all Tenant's right, title and interest in and its obligations under each Excess FF&E Lease between Tenant and such Third-Party Purchaser (an "Excess FF&E Leasehold Interest"). In the aforesaid transaction (an "Excess FF&E Leasehold Interest Transfer"), the transfer price for such Excess FF&E Leasehold Interest (the "Excess FF&E Leasehold Interest Transfer Price") shall be an amount equal to the fair market value of such Excess FF&E Leasehold Interest at such time (as determined in accordance with the procedure provided below) and shall be payable (i) by Landlord if such fair market value is a positive number or (ii) by Tenant if such fair market value is a negative number. The fair market value of the Excess FF&E Leasehold Interest shall be determined taking into account all relevant factors, including the remaining term thereof, the remaining expected useful life of the Excess FF&E (as determined in accordance with GAAP) subject to such leasehold, and the leasing rate that would apply, under market conditions at that time, if a new lease for such Excess FF&E were to be entered into with an unrelated party for a term equal to the term remaining for such Excess FF&E Leasehold Interest; provided, however, that in no event shall such fair market value be less than the adjusted book value of such Excess FF&E Leasehold Interest. Any amount payable pursuant to this paragraph shall be paid within ten (10) days after the expiration or termination of this Lease and, if due from Landlord, shall be paid first by offset against any Rent owed by Tenant to Landlord as of such time and any amounts owed by Tenant to Landlord as of such time under the Working Capital Note, and the remainder (if any) shall be paid in cash.

(i) In the event that the Facility Mortgagee forecloses on its Lien on any Excess FF&E owned by Tenant in connection with, but not separate from, a foreclosure of the Leased Property, Landlord shall reimburse Tenant for the loss of such Excess FF&E in an amount equal to the Excess FF&E Repurchase Price plus any reasonable costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Tenant in complying with (but not contesting) such foreclosure (the "Excess FF&E Reimbursement Amount"). In the event that the Excess FF&E Reimbursement Amount becomes payable to Tenant pursuant to the immediately preceding sentence, (i) it shall be paid first by offsetting any amounts owed by Tenant to Landlord as of such time and the balance (if any) shall be paid in cash, (ii) Tenant agrees to seek payment of such cash balance (if any) solely from Host O.P. pursuant to the terms of the Facility Mortgagee Agreement and shall not make any demand or claim therefor against Landlord, the Facility Mortgagee, any purchaser in foreclosure or transferee by deed in lieu of foreclosure or other party claiming under any of the foregoing, and (iii) Host O.P. agrees to pay any such cash balance.

(j) No Third-Party Purchaser shall purchase any Excess FF&E from Landlord unless and until such Third-Party Purchaser shall have (i) agreed to purchase such Excess FF&E with cash from such Third-Party Purchaser's own funds; (ii) agreed to lease such Excess FF&E to Tenant under an Excess FF&E Lease; and (iii) entered into an agreement with Landlord, the Facility Mortgagee and Host O.P. pursuant to which (A) the Third-Party Purchaser acknowledges to the Facility Mortgagee that all Excess FF&E purchased by such Third-Party Purchaser while the Facility Mortgage is in effect is subject to the Facility Mortgagee's first-priority Lien (without Third-Party Purchaser assuming any liability for Landlord's obligations that are secured by or arise under any Facility Mortgage) and that the Facility Mortgagee's rights and remedies with respect to such Excess FF&E shall survive and be enforceable with respect thereto; (B) the Third-Party Purchaser covenants to the Facility Mortgagee to execute and deliver UCC-1 financing statements prepared by Landlord or any Facility Mortgagee confirming the foregoing for notice purposes, which UCC-1 financing statements may then be filed by Landlord or the Facility Mortgagee at Landlord's sole expense; (C) the Third-Party Purchaser covenants not to sell, lease, transfer or otherwise dispose of such Excess FF&E or any interest therein, or grant or cause or permit there to exist any lien, charge or encumbrance with respect thereto, other than the Lien in favor of the Facility Mortgagee, any other Liens which are the responsibility of Landlord and any Lien arising pursuant to such agreement or the Excess FF&E Lease, (D) in the event that this Lease expires or is terminated prior to the expiration or termination of the Excess FF&E Lease, Landlord agrees to purchase from the Third-Party Purchaser, and the Third-Party Purchaser agrees to sell to Landlord, all Excess FF&E owned by the Third-Party Purchaser at that time (other than any Excess FF&E to which clause (E) below applies) on the same terms as those applicable to the Excess FF&E Repurchase; and (E) if the Facility Mortgagee forecloses on its Lien with respect to Excess FF&E owned by the Third-Party Purchaser: (x) Landlord and Host O.P. agree to reimburse the Third-Party Purchaser for the loss of such Excess FF&E (such reimbursement to be paid first by offsetting any amounts owed by the Third-Party Purchaser to Landlord and the balance (if any) to be paid in cash); (y) Host O.P. agrees to pay the cash balance (if any) of such reimbursement amount directly to the Third-Party Purchaser without the need for notice or demand on Landlord; and (z) the Third-Party Purchaser agrees to look only to Host O.P. for payment of such cash balance.

(k) It is the intent of Landlord and Tenant that the leases of FF&E pursuant to the [Initial FF&E Lease,] any Excess FF&E Lease and this Lease shall be treated as operating leases and not Capitalized Lease Obligations under GAAP. Landlord and Tenant agree to cooperate to the extent feasible and consistent with the terms of this Lease to provide terms for such leases of FF&E that are so treated.

SCHEDULE 22.2-A

FORM OF EXCESS FF&E LEASE

[SEE ATTACHED]

SCHEDULE 23.8

DEEMED CONSENT OR APPROVAL

- Section 4.3.1 - If Hazardous materials are discovered in violation of Environmental Laws on the Leased Property, Tenant will exercise all commercially reasonable efforts to cause Manager to take all actions and incur all expenses (which actions and expenses will be subject to Landlord's prior approval, except in Emergency Situations) as may be necessary or required by any Government Agency.

- Section 9.5 - All insurance policies shall include only deductibles reasonably approved by Landlord.

- Section 10.2.4 - Landlord may, at its option, condition advancement of insurance proceeds and other amounts on, among other things, its approval of plans and specifications of an architect reasonably satisfactory to Landlord.

- Section 11.2 - Landlord may, at its option, condition advancement of an Award and other amounts on, among other things, its approval of plans and specifications of an architect reasonably satisfactory to Landlord.

Exhibit 10.27

AMENDMENT NO. 1 TO CONSENT, ASSIGNMENT AND ASSUMPTION AND AMENDMENT OF MANAGEMENT AGREEMENT

THIS AMENDMENT NO. 1 TO THE CONSENT, ASSIGNMENT AND ASSUMPTION AND AMENDMENT OF MANAGEMENT AGREEMENT ("Amendment") is made as of January __, 2001, effective as of January 1, 2001, by and among [Existing Hotel Owner], a [State and Type] having an address at c/o Host Marriott Corporation, 10400 Fernwood Road, Bethesda, Maryland 20817 ("Owner"), [Existing Hotel Lessee], a Delaware limited liability company having an address at c/o Host Marriott Corporation, 10400 Fernwood Road, Bethesda, Maryland 20817 ("Lessee"), and [Manager], a Delaware corporation having an address at 10400 Fernwood Road, Bethesda, Maryland 20817 ("Marriott").

Recitals:

A. Owner, Lessee and Marriott are parties to a Consent, Assignment and Assumption and Amendment of Management Agreement dated as of December 31, 1998 (the "Agreement").

B. On the date hereof but effective as of 12:01 A.M. on January 1, 2001, HMT Lessee LLC, a Delaware limited liability company, will acquire from certain wholly-owned subsidiaries of Crestline Capital Corporation (i) 100% of the equity interests in the parents of the entities that are tenants under leases of certain hotels owned by Host Marriott, L.P. or its subsidiaries, including without limitation Lessee and (ii) certain hotel lease assets related to the lease of certain Canadian hotels owned by Host L.P. or its subsidiaries (the "Acquisition").

C. In connection with the closing of the Acquisition, Owner, Lessee and Marriott wish to amend the Agreement, and to provide for certain other matters, as set forth below.

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

A. Amendments to the Agreement.

1. Section 4(d). Section 4(d) of the Agreement is hereby amended by deleting the same in its entirety and substituting therefore the words "Intentionally Omitted."

2. Section 5. Section 5 of the Agreement is hereby amended by deleting the first paragraph thereof in its entirety and substituting therefor the following:

> " The parties agree that the Management Agreement and the rights and benefits of Marriott thereunder shall not be terminated or disturbed in any respect except in accordance with the terms of the Management Agreement (or in accordance with the terms of any other agreement or instrument binding on Marriott), and not as

a result of any termination of the Lease. Accordingly, if the Lease is terminated for any reason, including, without limitation, expiration of the term thereof or the "rejection" thereof following Bankruptcy (as defined in Section 10 hereof) of Lessee (a "Lease Termination"), Owner shall at the time of or prior to such Lease Termination either (a) elect not to take either of the actions described in clause (b) below, in which case all of "Owner's" rights, benefits, privileges and obligations under the Management Agreement with respect to periods after such Lease Termination shall automatically revert to Owner, or (b) cause an "Approved Tenant" (as defined hereunder) to (i) succeed to and assume Lessee's rights and obligations under the Lease, the Management Agreement and this Agreement, or (ii) enter into a new lease with Owner in substantially the same form as the Lease with such changes as may be negotiated between Owner and the Approved Tenant, provided such changes do not materially and adversely restrict, limit or interfere with the rights of Marriott hereunder or under the Management Agreement (including without limitation (A) provide for an initial term which is shorter than the unexpired portion of the Lease term or longer than twelve (12) years, and provide for no more than three (3) renewal terms, each of which shall be no longer than twelve (12) years, (B) limit or otherwise purport to reduce, or modify in any manner adverse to Marriott, Owner's responsibility for the Retained Obligations or Reserved Rights or Owner's or Lessee's responsibility for Continuing Obligations, (C) supplement or add to the Continuing Rights, or (D) amend or modify the following provisions of the Lease: Section 1.32, Section 3.1.6(a)-(f), Section 4.4, Section 5.1.2, Article 6, Article 16, Section 17.3 (or the definitions of any terms used in any such Sections or Articles), the definition of "Permitted Debt" set forth in Section 21.6.3, the definition of "Qualified Affiliate" set forth in Section 1.158 or the provisions regarding certain fundamental changes with respect to such "Qualified Affiliate" set forth in Section 21.6.6(ii), provided, however, that, if, at the effective time of the new lease, the
-------- -------
successor lessee is directly or indirectly wholly-owned by Host O.P., the new lease may provide for an initial term which is shorter than the unexpired portion of the Lease term and may contain such revisions to Sections 3.1.6.(a)-(f) and 17.3 (or the definitions of any terms used in such Sections) to which Owner and the successor lessee shall agree, in each case without the prior written consent of Marriott, provided,
                                                                ----
further, that, unless consented to by Marriott in writing, any change of
----
the type described in the foregoing proviso other than any permitted change in the initial term of the new lease shall be replaced by the language in the Lease, with any modifications thereto which were approved by Marriott in writing, at such time

as a Person which is not directly or indirectly wholly-owned by Host O.P. becomes a successor lessee) and succeed to and assume the rights and obligations of Lessee under the Management Agreement and this Agreement, the intent being that the relationship between any successor lessee, Owner and Marriott be under the same terms and conditions as the relationship between Lessee, Owner and Marriott hereunder and under the Management Agreement, Operating Agreement (as defined hereunder) and the Lease. If any future lessee is not directly or indirectly controlled by Host O.P., the Lease shall also include the change as required pursuant to the last sentence of Section 9(b) hereof. The succession of the Lessee's interests as described in clauses (a) and (b) above are herein referred to as a "Lease Succession.""

Section 5 of the Agreement is hereby further amended by deleting the definition of "Approved Tenant" in the second paragraph thereof in its entirety and substituting therefor the following:

An "Approved Tenant" is hereby defined as (i) an entity which is directly or indirectly wholly-owned by Host O.P. and is a single purpose entity in which Marriott is a non-equity member with rights which are no less favorable to Marriott than that which it has as a non-equity member in Lessee, and which is organized and operated pursuant to an operating agreement not substantially different from the Operating Agreement of Lessee dated [Operating Agreement Date] (the "Operating Agreement") or otherwise acceptable to Marriott or (ii) an entity which (A) in Marriott's reasonable judgment, has sufficient financial resources and liquidity to fulfill the obligations of "Owner" under the Management Agreement, (B) is not in control of or controlled by Persons who have been convicted of felonies in any state or federal court, (C) is not engaged (or affiliated with any person or entity engaged) in the business of operating (as distinguished from owning) a branded hotel chain having five thousand (5,000) or more guest rooms in competition with Marriott International, Inc. and its successors, (D) shall be a single purpose entity in which Marriott is a non-equity member with rights which are no less favorable to Marriott than that which it has as a non-equity member in Lessee, and which is organized and operated pursuant to an operating agreement not substantially different from the Operating Agreement or otherwise acceptable to Marriott, and (E) which does not result in there being more than six (6) separate, unrelated Business Entities being equity members in the single purpose entities which are the lessees of hotels owned by Owner and managed by Marriott International, Inc., or an affiliate thereof.

3. Section 7. Section 7 of the Agreement is hereby amended by deleting the same in its entirety and substituting therefor the following:

"7. Lease Modification/Consent.

(a) Neither Owner nor Lessee shall agree to any amendment or modification of the Lease which would materially and adversely restrict, limit or interfere with the rights of Marriott hereunder or under the Management Agreement without the prior written consent of Marriott, and no amendment or modification shall be effective if made in breach hereof. In no event shall any amendment or modification of the Lease (i) result in an initial term of the Lease which would be shorter than the then existing initial term of the Lease or longer than twelve (12) years or more than three (3) renewal terms, each of which shall be no longer than twelve (12) years, (ii) limit or otherwise purport to reduce, or modify in any manner adverse to Marriott, Owner's responsibility for the Retained Obligations or Reserved Rights, or Owner's or Lessee's responsibility for Continuing Obligations, (iii) supplement or add to the Continuing Rights, or (iv) amend or modify of the following provisions of the Lease: Section 1.32, Section 3.1.6.(a)-(f), Section 4.4, Section 5.1.2, Article 6, Article 16, Section 17.3 (or the definitions of any terms used in any such Sections or Articles), the definition of "Permitted Debt" set forth in Section 21.6.3, the definition of "Qualified Affiliate" set forth in Section 1.158 or the provisions regarding certain fundamental changes with respect to such "Qualified Affiliate" set forth in Section 21.6.6(ii), without the prior written consent of Marriott, provided, however, that, if, at the
-------- -------
effective time of any amendment or modification of the Lease, Lessee is directly or indirectly wholly-owned by Host O.P., (x) the term of the Lease may be shortened as Lessee and Owner shall agree, (y) the initial term of the Lease may be lengthened as Owner and Lessee shall agree provided that it does it does not exceed twelve (12) years from the effective date of the amendment or modification or (z) Sections 3.1.6.(a)-(f) and 17.3 (or the definitions of any terms used in such Sections) of the Lease may be amended or modified as Owner and Lessee shall agree, in each case without the prior written consent of Marriott, provided, further, that, unless consented to by Marriott in writing, any
-------- -------
amendment or modification of the type described in the foregoing proviso other than any permitted change in the term of the Lease shall be replaced by the language in effect immediately prior to the effectiveness of such amendment or modification at such time as a Person which is not directly or indirectly wholly-owned by Host O.P. becomes a successor lessee, and Lessee agrees to deliver copies of any amendments or modifications of the Lease to Marriott within ten (10) business days following the execution and delivery thereof, and this Agreement shall continue in force and effect as to the Lease as amended or modified in accordance with the provisions hereof.

(b) Without the prior written consent of Marriott, in its sole and absolute discretion, Lessee shall not sublease all or any portion of the Hotel, or assign the Lease, directly or indirectly, except it may assign the Lease to a single purpose limited liability company which is directly or indirectly wholly-owned by Host

O.P. and in which Marriott is a non-equity member with rights which are no less favorable to Marriott than that which it has as a non-equity member in Lessee and which is organized and operated pursuant to an operating agreement not substantially different from the Operating Agreement ("Approved Affiliate"). Any sublease to any Person, or any assignment to any Person other than an Approved Affiliate, without Marriott's prior written consent, in its sole and absolute discretion, shall be null and void."

4. Section 9(b). Section 9(b) of the Agreement is hereby amended by deleting the last two sentences of Section 9(b) in their entirety and inserting the following language in lieu thereof:

"With respect to Lessees not directly or indirectly controlled by Host O.P., the definition of "Change in Control" shall include the acquisition by Lessee or any Affiliate thereof of any entity in the business of operating (as distinguished from owning) a branded hotel chain having five thousand (5,000) or more guest rooms in competition with Marriott International, Inc. and its successors. The Change in Control definition in the Lease for future lessees which Host O.P. does not so control shall be modified to reflect this provision."

5. Section 16(c). Section 16(c) of the Agreement is hereby amended by deleting the reference to "c/o Crestline Capital Corporation" in the portion of Section 16(c) providing the address to which notice shall be sent to the Lessee and replacing such reference with "c/o HMT Lessee LLC, c/o Host Marriott, L.P."

6. General. For all purposes of the Agreement, (i) the words "person" and "Person" shall mean any individual or Entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such person or Person where the context so requires and (ii) the words "entity" and "Entity" shall mean any corporation, general or limited partnership, limited liability company or partnership, joint venture, association, company, trust, bank, trust company, land trust, business trust, cooperative, any government or agency or political subdivision thereof or any other entity.

B. Consent to Amendments to the Lease.

Marriott hereby acknowledges and, to the extent required under the Agreement, consents to the amendments to the Lease as set forth in Exhibit A attached hereto.

C. Miscellaneous.

1. Other Provisions. All other provisions of the Agreement shall remain in full force and effect.

2. Defined Terms. Capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings set forth in the Agreement.

3. Counterparts. This Amendment may be executed in one or more counterparts, each of which may be executed by less than all the parties, each of which will be deemed to be an original copy of this Amendment and all of which, when taken together, will be deemed to constitute one and the same agreement.

4. Governing Law. This Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of [Governing Law] without giving effect to its principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Amendment as of the date first above written.

OWNER:

[EXISTING HOTEL OWNER]

By: _____

Name: _____

LESSEE:

[EXISTING HOTEL LESSEE]

By: _____

Name: _____

MARRIOTT:

[MANAGER]

By: _____

Name: _____

EXHIBIT A

Amendments to Lease

EXHIBIT 12.1

HOST MARRIOTT, L.P. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND PREFERRED STOCK DISTRIBUTIONS
(in millions, except ratio amounts)

	2000	1999	1998	1997	1996
Income from operations before income taxes.....	$105	$240	$174	$ 83	$ (8)
Add (deduct):					
Fixed charges.....	533	518	415	364	283
Capitalized interest.....	(8)	(7)	(4)	(1)	(3)
Amortization of capitalized interest.....	6	6	6	5	7
Net gains (losses) related to certain 50% or less owned affiliate.....	(24)	(6)	(1)	(1)	1
Minority interest in consolidated affiliates...	27	21	52	31	6
Adjusted earnings.....	$639	$772	$642	$481	$286
Fixed charges:					
Interest on indebtedness and amortization of deferred financing Costs.....	$466	$469	$335	$288	$237
Dividends on convertible preferred securities of subsidiary trust.....	--	--	37	37	3
Distributions on preferred limited partner units.....	20	6	--	--	--
Portion of rents representative of the interest factor.....	47	43	43	39	33
Debt service guarantee interest expense of unconsolidated affiliates.....	--	--	--	--	10
Total fixed charges and preferred stock distributions.....	$533	$518	$415	$364	$283
Ratio of earnings to fixed charges and preferred stock distributions.....	1.20	1.49	1.54	1.32	1.01

HOST MARRIOTT, L.P.

SUBSIDIARIES

1) Airport Hotels LLC
2) Ameliatel
3) Atlanta II Limited Partnership
4) BRE/Swiss LLC
5) CCHH Atlanta LLC(1)
6) CCHH Reston LLC(1)
7) CCMH Atlanta Marquis LLC(1)
8) CCMH Atlanta NW LLC(1)
9) CCMH Atlanta Suites LLC(1)
10) CCMH Bethesda LLC(1)
11) CCMH Charlotte LLC(1)
12) CCMH Chicago CY LLC(1)
13) CCMH Costa Mesa Suites LLC(1)
14) CCMH DC LLC(1)
15) CCMH Deerfield Suites LLC(1)
16) CCMH Denver SE LLC(1)
17) CCMH Dulles AP LLC(1)
18) CCMH Dulles Suites LLC(1)
19) CCMH Farmington LLC(1)
20) CCMH Financial Center LLC(1)
21) CCMH Fisherman's Wharf LLC(1)
22) CCMH Gaithersburg LLC(1)
23) CCMH Hanover LLC(1)
24) CCMH Houston AP LLC(1)
25) CCMH Jacksonville LLC(1)
26) CCMH Kansas City AP LLC(1)
27) CCMH Key Bridge LLC(1)
28) CCMH Memphis LLC(1)
29) CCMH Metro Center LLC(1)
30) CCMH Minneapolis LLC(1)
31) CCMH Moscone LLC(1)
32) CCMH Newport Beach LLC(1)
33) CCMH Newton LLC(1)
34) CCMH Norcross LLC(1)
35) CCMH O'Hare AP LLC(1)
36) CCMH O'Hare Suites LLC(1)
37) CCMH Oklahoma City LLC(1)
38) CCMH Ontario AP LLC(1)
39) CCMH Palm Beach LLC(1)
40) CCMH Palm Desert LLC(1)
41) CCMH Park Ridge LLC(1)
42) CCMH Pentagon RI LLC(1)
43) CCMH Philadelphia AP LLC(1)
44) CCMH Pittsburgh LLC(1)
45) CCMH Plaza San Antonio LLC(1)

HOST MARRIOTT, L.P.

SUBSIDIARIES--(Continued)

46) CCMH Potomac LLC(1)
47) CCMH Properties II LLC(1)
48) CCMH Raleigh LLC(1)
49) CCMH Raleigh LLC(1)
50) CCMH Rocky Hill LLC(1)
51) CCMH Salt Lake LLC(1)
52) CCMH San Fran AP LLC(1)
53) CCMH Santa Clara LLC(1)
54) CCMH Scottsdale Suites LLC(1)
55) CCMH South Bend LLC(1)
56) CCMH Tampa AP LLC(1)
57) CCMH Tampa Waterside LLC(1)
58) CCMH Tampa Westshore LLC(1)
59) CCMH Vail LLC(1)
60) CCMH Williamsburg LLC(1)
61) CCRC Amelia Island LLC(1)
62) CCRC Buckhead/Naples LLC(1)
63) CCRC Marina LLC(1)
64) CCRC Phoenix LLC(1)
65) CCRC San Francisco LLC(1)
66) CCSH New York LLC(1)
67) CCSH Chicago LLC(1)
68) CCSH New York LLC(1)
69) Chesapeake Financial Services LLC
70) Chesapeake Hotel Limited Partnership
71) CHLP Finance LP
72) City Center Hotel Limited Partnership
73) City Center Interstate Partnership LLC
74) Deerfield Capital Trust
75) DS Hotel LLC
76) Durbin LLC
77) East Side Hotel Associates, L.P.
78) Farrell's Ice Cream Parlor Restaurants LLC
79) HMA Realty Limited Partnership
80) HMA-GP LLC
81) HMC Amelia I LLC
82) HMC Amelia II LLC
83) HMC Atlanta LLC
84) HMC BCR Holdings LLC
85) HMC Burlingame LLC
86) HMC California Leasing LLC
87) HMC Cambridge LLC
88) HMC Capital LLC
89) HMC Capital Resources LLC
90) HMC Chicago LLC
91) HMC Desert LLC

HOST MARRIOTT, L.P.

SUBSIDIARIES--(Continued)

92) HMC Diversified American Hotels, L.P.
93) HMC Diversified LLC
94) HMC DSM LLC
95) HMC East Side II LLC
96) HMC East Side LLC
97) HMC Gateway LLC
98) HMC Georgia LLC
99) HMC Grand LLC
100) HMC Hanover LLC
101) HMC Hartford LLC
102) HMC Host Restaurants LLC
103) HMC Hotel Development LLC
104) HMC Hotel Properties II Limited Partnership
105) HMC Hotel Properties Limited Partnership
106) HMC HPP LLC
107) HMC HT LLC
108) HMC IHP Holdings LLC
109) HMC JWDC GP LLC
110) HMC Manhattan Beach LLC
111) HMC Market Street LLC
112) HMC Mexpark LLC
113) HMC MHP II LLC
114) HMC NGL LLC
115) HMC OLS I LP
116) HMC OLS I LLC
117) HMC OLS II LP
118) HMC OP BN LLC
119) HMC Pacific Gateway LLC
120) HMC Palm Desert LLC
121) HMC Park Ridge II LLC
122) HMC Park Ridge LLC
123) HMC Park Ridge LP
124) HMC Partnership Holdings LLC
125) HMC Partnership Properties LLC
126) HMC PLP LLC
127) HMC Polanco LLC
128) HMC Potomac LLC
129) HMC Properties I LLC
130) HMC Properties II LLC
131) HMC Property Leasing LLC
132) HMC Reston LLC
133) HMC Retirement Properties, L.P.
134) HMC RTZ II LLC
135) HMC RTZ Loan I LLC
136) HMC RTZ Loan II LLC
137) HMC RTZ Loan Limited Partnership

HOST MARRIOTT, L.P.

SUBSIDIARIES--(Continued)

138) HMC RTZ Management LLC
139) HMC SBM Two LLC
140) HMC Seattle LLC
141) HMC SFO LLC
142) HMC Suites LLC
143) HMC Suites Limited Partnership
144) HMC Swiss Holdings LLC
145) HMC Times Square Hotel LLC
146) HMC Times Square Partner LLC
147) HMC Waterford LLC
148) HMC/Interstate Manhattan Beach, L.P.
149) HMC/Interstate Ontario, L.P.
150) HMC/Interstate Waterford, LP
151) HMC/RGI Hartford, L.P.
152) HMH General Partner Holdings LLC
153) HMH HPT CBM LLC
154) HMH HPT RIBM LLC
155) HMH Marina LLC
156) HMH Norfolk, L.P.
157) HMH Norfolk, LLC
158) HMH Pentagon LLC
159) HMH Restaurants LLC
160) HMH Rivers LLC
161) HMH Rivers, L.P.
162) HMH WTC LLC
163) HMP Capital Ventures LLC
164) HMP Financial Services LLC
165) HMT Lessee LLC(1)
166) HMT Lessee Sub (Atlanta) LLC(1)
167) HMT Lessee Sub (Palm Desert) LLC(1)
168) HMT Lessee Sub (Properties II) LLC(1)
169) HMT Lessee Sub (Santa Clara) LLC(1)
170) HMT Lessee Sub I LLC(1)
171) HMT Lessee Sub II LLC(1)
172) HMT Lessee Sub III LLC(1)
173) HMT Lessee Sub IV LLC(1)
174) HMT SPE (Atlanta) Corporation(1)
175) HMT SPE (Palm Desert) Corporation(1)
176) HMT SPE (Properties II) Corporation(1)
177) HMT SPE (Santa Clara) Corporation(1)
178) Hopewell Associates, L.P.
179) Host DSM Limited Partnership
180) Host Hanover Limited Partnership
181) Host La Jolla LLC
182) Host MHP Two Corporation
183) Host of Boston, Ltd.

HOST MARRIOTT, L.P.

SUBSIDIARIES--(Continued)

184) Host of Houston 1979
185) Host of Houston Ltd.
186) Host Park Ridge LLC
187) Host Properties, Inc.
188) Host/Interstate Partnership, L.P.
189) Hotel Properties Management, Inc.
190) IHP Holdings Partnership LP
191) Ivy Street Hopewell LLC
192) Ivy Street Hotel Limited Partnership
193) Ivy Street LLC
194) Ivy Street MPF LLC
195) JWDC Limited Partnership
196) Lauderdale Beach Association
197) Marina Hotel LLC
198) Market Street Host LLC
199) MDSM Finance LLC
200) MFR of Illinois LLC
201) MFR of Vermont LLC
202) MFR of Wisconsin LLC
203) MHP Acquisition Corporation
204) MHP II Acquisition Corporation
205) MOHS Corporation
206) Mutual Benefit Chicago Suite Hotel Partners, L.P.
207) Mutual Benefit/Marriott Hotel Associates I, Limited Partnership
208) New Market Street LP
209) Pacific Gateway Ltd.
210) Philadelphia Airport Hotel Corporation
211) Philadelphia Airport Hotel Limited Partnership
212) Philadelphia Airport Hotel LLC
213) Philadelphia Market Street HMC Hotel Limited Partnership
214) Philadelphia Market Street Hotel Corporation
215) Philadelphia Market Street Marriott Hotel II Limited Partnership
216) PM Financial LLC
217) PM Financial LP
218) Potomac Hotel Limited Partnership
219) PRM LLC
220) RAJ Boston Associates Limited Partnership
221) RTZ Holdings Boston LLC
222) S.D. Hotels LLC
223) S.D. Hotels, Inc.
224) Santa Clara HMC LLC
225) Santa Clara Host Hotel Limited Partnership
226) Timeport, L.P.
227) Times Square GP LLC
228) Times Square HMC Hotel, L.P.
229) Times Square LLC

HOST MARRIOTT, L.P.

SUBSIDIARIES--(Continued)

230) Timewell Group, L.P.
231) Wellsford Park Ridge Host Hotel Limited Partnership
232) YBG Associates LLC

- --------
(1) Subsidiary was created or acquired in connection with Host LP's acquisition of the Crestline Lessee Entities on January 8, 2001.