

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (date of earliest event reported): December 29, 1998

HOST MARRIOTT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	001-14625	53-0085950
----- (State or Other Jurisdiction of Incorporation)	----- (Commission File Number)	----- (IRS Employer Identification Number)
10400 Fernwood Road, Bethesda, Maryland		20817-1109
----- (Address of Principal Executive Offices)		----- (Zip Code)

The Registrant's telephone number, including area code: (301) 380-9000

Exhibit index is located on page 6.

INFORMATION TO BE INCLUDED IN THE REPORT

Item 5: Other Events

On December 29, 1998, HMC Merger Corporation ("new Host Marriott"), a Maryland corporation and formerly a wholly owned subsidiary of Host Marriott Corporation, a Delaware corporation ("old Host Marriott"), completed its merger with old Host Marriott as part of old Host Marriott's plan to convert to a real estate investment trust. In connection with the merger, new Host Marriott, as the surviving corporation in the merger, changed its name from HMC Merger Corporation to Host Marriott Corporation, and commencing at the opening of trading on December 30, 1998, shares of the new Host Marriott will be traded on the New York Stock Exchange under the symbol "HMT," the same symbol under which old Host Marriott was traded prior to the merger.

Certain factors that should be considered in deciding whether to invest in securities of new Host Marriott Corporation are set forth under the caption "Federal Income Tax Considerations" attached hereto as Exhibit 99.1 and incorporated herein by reference.

Item 7: Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements

Not applicable.

(b) Pro forma financial information

Host Marriott, L.P. ("Operating Partnership")

Introduction to Unaudited Pro Forma Financial Statements of the
Operating Partnership
100% Participation with No Notes Issued

Pro Forma Balance Sheet as of September 11, 1998
Pro Forma Statement of Operations for the First Three Quarters
1998

Pro Forma Statement of Operations for Fiscal Year 1997
100% Participation with Notes Issued

Pro Forma Balance Sheet as of September 11, 1998
Pro Forma Statement of Operations for the First Three Quarters
1998
Pro Forma Statement of Operations for Fiscal Year 1997

Host Marriott Corporation ("Host REIT")

Introduction to Unaudited Pro Forma Financial Statements of Host REIT
100% Participation with No Notes Issued

Pro Forma Balance Sheet as of September 11, 1998
Pro Forma Statement of Operations for the First Three Quarters
1998

Pro Forma Statement of Operations for Fiscal Year 1997
100% Participation with Notes Issued

Pro Forma Balance Sheet as of September 11, 1998
Pro Forma Statement of Operations for the First Three Quarters
1998

Pro Forma Statement of Operations for Fiscal Year 1997

Crestline Capital Corporation ("Crestline")

Introduction to Unaudited Pro Forma Financial Statements of Crestline

Pro Forma Balance Sheet as of September 11, 1998
Pro Forma Statement of Operations for the First Three Quarters
1998

Pro Forma Statement of Operations for Fiscal Year 1997

(c) Exhibits

Exhibit No. -----	Description -----
99.1	"Federal Income Tax Considerations" relating to an investment in securities of new Host Marriott Corporation.

SIGNATURES

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

Date: December 29, 1998

HOST MARRIOTT CORPORATION

By: /s/ Donald D. Olinger

Name: Donald D. Olinger
Title: Senior Vice President
and Corporate Controller

PRO FORMA FINANCIAL INFORMATION

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PRO FORMA FINANCIAL INFORMATION OF THE OPERATING PARTNERSHIP

Given the structure of Host Marriott's Consent Solicitation, the Mergers and the REIT Conversion may take a variety of different forms. The variations are dependent in part on the number and identity of the Partnerships that merge and whether limited partners elect to tender their Partnership Interests for OP Units or Notes in connection with the REIT Conversion.

In light of the number of possible variations, the Company is not able to describe all possible combinations of Hotel Partnerships that could compose the Operating Partnership. All Hotel Partnerships have voted to approve the Mergers but the Mergers have not yet been completed. To assist shareholders in analyzing the Mergers and the REIT Conversion, the Company has prepared two separate sets of unaudited pro forma financial statements to show the impact of the Mergers and the REIT Conversion assuming the following two scenarios:

- . All Partnerships participate and no Notes are issued ("100% Participation with No Notes Issued")
- . All Partnerships participate with Notes issued with respect to 100% of the OP Units allocable to each Partnership ("100% Participation with Notes Issued")

There is no minimum condition to participation in the Mergers and the Operating Partnership does not believe that the presentation of additional scenarios is relevant to investors or required. Furthermore, the unaudited pro forma financial statements do not purport to represent what the results of operations or cash flows would actually have been if the Mergers and the REIT Conversion had in fact occurred on such date or at the beginning of such period or to project the results of operations for any future date or period.

Host intends to use its best efforts to cause the REIT Conversion to be completed as soon as possible and expects that it will be completed during 1998 in time for Host REIT to elect REIT status effective January 1, 1999.

The unaudited pro forma financial statements are based upon available information and upon certain assumptions, as set forth in the notes to the unaudited pro forma financial statements, that the Operating Partnership believes are reasonable under the circumstances. Rental revenue is recognized only for Leases to be entered at or prior to completion of the REIT Conversion.

The unaudited pro forma statements of operations of the Operating Partnership reflect the following transactions for the First Three Quarters 1998 and the fiscal year ended January 2, 1998 as if such transactions had been completed at the beginning of the fiscal year:

Acquisitions, Dispositions and Other Activities

- . Blackstone Acquisition
- . 1998 Senior Note Refinancing
- . 1998 Series C Senior Note Offering and the refinancing of certain debt
- . 1998 acquisition of, or purchase of controlling interests in, eleven full-service properties

- . 1998 purchase of minority interests in two full-service hotels
- . 1998 disposition of two full-service properties
- . 1997 acquisition of, or purchase of controlling interests in, 18 full-service properties
- . 1997 refinancing or repayment of mortgage debt for three full-service properties

REIT Conversion Activities

- . 1998 deconsolidation of the assets and liabilities contributed to the Non-Controlled Subsidiary, including the sale of certain furniture and equipment to the Non-Controlled Subsidiary
- . 1998 Mergers
- . 1998 acquisition of minority interests in four private Partnerships in exchange for OP Units
- . 1998 lease of certain hotel properties to Crestline and conversion of revenues and certain operating expenses to rental income
- . 1998 adjustment to remove deferred taxes resulting from the change in tax status related to the REIT Conversion
- . 1998 Special Dividend of either .087 shares of REIT stock or \$1.00 in cash per share of common stock, at the election of each stockholder (assumes only cash is elected)
- . 1998 sale of an investment in a joint venture to Crestline

The adjustments to the unaudited pro forma balance sheet as of September 11, 1998 reflect all of the above 1998 transactions except for the acquisition of, or purchase of controlling interests in, 11 full-service properties, the 1998 Senior Note Refinancing, the contribution of notes receivable to Crestline and the disposition of two full-service properties, each of which occurred prior to September 11, 1998 and were already reflected in the historical balance sheet. The adjustments to the unaudited pro forma balance sheet as of September 11, 1998 also reflects (a) the distribution of the Initial E&P Distribution (which includes the Crestline common stock and the special cash or stock election dividend) to Host stockholders and the Blackstone entities, which was approved by the Board of Directors of Host on December 18, 1998 at which time it determined that the conditions to the REIT Merger have been or are reasonably likely to be satisfied or waived (and, in particular, that the transactions constituting the REIT Conversion which impact Host REIT's status as a REIT for federal income tax purposes have occurred or are reasonably likely to occur), and (b) the Leases.

The assumptions regarding the number of OP Units to be issued and the price per OP Unit are outside the control of Host Marriott and have been made for illustrative purposes only. The unaudited pro forma financial statements and accompanying notes should be read in conjunction with the historical consolidated financial statements of the Host Marriott and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Proxy Statement of Host Marriott and the Prospectus of HMC Merger Corporation.

The Emerging Issues Task Force (EITF) reached a consensus in May 1998 on Issue 98-9, "Accounting for Contingent Rents in Interim Financial Periods" ("EITF 98-9"). EITF 98-9 requires a lessor to defer recognition of contingent rental income in interim periods until the specified target that triggers the contingent rental income is achieved. The accompanying pro forma financial statements reflect the application of EITF 98-9 to the interim periods. EITF 98-9 will have no impact on the full-year rental income recorded by the Operating Partnership. While the EITF subsequently rescinded this consensus, for purposes of these pro forma statements the Operating Partnership continues to follow the accounting principles outlined in EITF 98-9. The Operating Partnership may choose to record the contingent rental income in interim periods and disclose in the footnotes to the financial statements the portion that is contingent. However, the Operating Partnership has not concluded which method it will use at this time.

UNAUDITED PRO FORMA BALANCE SHEET
 SEPTEMBER 11, 1998
 100% PARTICIPATION WITH NO NOTES ISSUED
 (IN MILLIONS, EXCEPT OP UNITS AMOUNTS)

	ACQUISITIONS DISPOSITIONS AND OTHER ACTIVITIES					
	A		B		C	
	HOST MARRIOTT CORPORATION HISTORICAL	DISTRIBU- TION ADJUST- MENTS	HOST MARRIOTT HOTELS HISTORICAL	BLACK- STONE ACQUI- SITION	ACQUIS- ITIONS	DEBT ISSUANCE, REPAYMENT & REFINANCING
ASSETS						
Property and equipment, net.....	\$5,937	\$(649)	\$5,288	\$1,449	\$--	\$--
Notes and other receivables, net.....	32	(3)	29	66	--	--
Due from managers.....	88	(5)	83	5	--	--
Investments in affiliates.....	18	--	18	--	--	--
Other assets.....	319	2	321	--	--	10
Receivable from Lessee for working capital....	--	--	--	--	--	--
Cash, cash equivalents and short-term marketable securities.....	575	(27)	548	(226)	--	488 (423)
	-----	-----	-----	-----	-----	-----
	\$6,969	\$(682)	\$6,287	\$1,294	\$--	\$ 75
	=====	=====	=====	=====	=====	=====
LIABILITIES AND EQUITY						
Debt(J).....	\$4,224	\$(213)	\$4,011	\$ 638	\$--	\$498 (423)
Convertible debt obligation to Host Marriott Corporation...	--	567	567	--	--	--
Accounts payable and accrued expenses.....	70	(23)	47	--	--	--
Deferred income taxes...	526	(62)	464	--	--	--
Other liabilities.....	447	(10)	437	--	--	--
	-----	-----	-----	-----	-----	-----
Total liabilities.....	5,267	259	5,526	638	--	75
Convertible Preferred Securities.....	550	(550)	--	--	--	--
Limited Partner interests of third parties at redemption value (on a pro forma basis 75.1 million OP Units outstanding)(K).....	--	--	--	656	--	--
Equity						
General Partner (on a pro forma basis .2 million OP Units outstanding)(K)	--	--	--	--	--	--
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding)(K).....	1,152	(391)	761	--	--	--
	-----	-----	-----	-----	-----	-----
	\$6,969	\$(682)	\$6,287	\$1,294	\$--	\$ 75
	=====	=====	=====	=====	=====	=====

Book value per OP Unit

	MERGERS AND REIT CONVERSION ACTIVITIES							
	D	E	F	G	L	H	I	
	NON- CONTROLLED SUBSIDIARIES	MERGERS	PRIVATE PARTNER- SHIPS	EARNINGS & PROFITS & DISTRIBUTION(1)	CONTRI- BUTION TO CRESTLINE	LEASE CONVER- SION	DEFERRED TAX ADJUST- MENT	PRO FORMA

ASSETS								
Property and equipment, net.....	\$(212)	\$572	\$ 61	\$ --	\$--	\$--	\$ --	\$7,158
Notes and other receivables, net.....	109	(3)	--	--	--	--	--	201
Due from managers.....	(1)	12	--	--	--	(85)	--	14

Investments in affiliates.....	14	--	--	--	--	--	--	32
Other assets.....	3	23	(11)	--	--	--	--	346
Receivable from Lessee for working capital....	--	--	--	--	--	85	--	85
Cash, cash equivalents and short-term marketable securities.....	(9)	7	(11)	(247)	(15) 7	--	--	119
	<u>\$ (96)</u>	<u>\$611</u>	<u>\$ 39</u>	<u>\$(247)</u>	<u>\$(8)</u>	<u>\$--</u>	<u>\$ --</u>	<u>\$7,955</u>
LIABILITIES AND EQUITY								
Debt(J).....	\$ (68)	\$323	\$--	\$ --	\$--	\$ --	\$ --	\$4,979
Convertible debt obligation to Host Marriott Corporation...	--	--	--	--	--	--	--	567
Accounts payable and accrued expenses.....	4	9	--	--	--	--	--	60
Deferred income taxes...	6	--	--	--	--	--	(195)	275
Other liabilities.....	(38)	(21)	(6)	--	--	320	--	692
Total liabilities.....	(96)	311	(6)	--	--	320	(195)	6,573
Convertible Preferred Securities.....	--	--	--	--	--	--	--	--
Limited Partner interests of third parties at redemption value (on a pro forma basis 75.1 million OP Units outstanding)(K).....	--	300	45	--	--	--	--	1,001
Equity								
General Partner (on a pro forma basis .2 million OP Units outstanding)(K)								
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding)(K).....	--	--	--	(247)	(8)	(320)	195	381
	<u>\$ (96)</u>	<u>\$611</u>	<u>\$ 39</u>	<u>\$(247)</u>	<u>\$ (8)</u>	<u>\$--</u>	<u>\$ --</u>	<u>\$7,955</u>
Book value per OP Unit								<u>\$ 4.95</u>

See Notes to the Unaudited Pro Forma Balance Sheet.

NOTES TO UNAUDITED PRO FORMA BALANCE SHEET
100% PARTICIPATION WITH NO NOTES ISSUED

A. Represents the adjustment to record the spin-off of Crestline and:

- . Reduce property and equipment by \$649 million
- . Reduce receivables by \$3 million related to certain Crestline notes held by the Operating Partnership
- . Reduce due from managers by \$5 million
- . Increase other assets by \$2 million
- . Reduce cash, cash equivalents and short-term marketable securities by \$27 million
- . Reduce debt by \$213 million
- . Reduce accounts payable and accrued expenses by \$23 million
- . Reduce deferred income taxes by \$62 million
- . Reduce other liabilities by \$10 million
- . Reduce equity by \$391 million
- . Eliminate the \$550 million Convertible Preferred Securities of Host Marriott which remain an obligation of Host REIT
- . Record the \$567 million of Convertible Debt Obligation to Host Marriott which is eliminated in consolidation on the historical financial statements of Host Marriott Corporation

B. Represents the adjustment to record the Blackstone Acquisition of 12 full-service properties (5,520 rooms) and a mortgage note secured by a thirteenth full-service property including the issuance of 47.5 million OP Units as determined through negotiations between the Operating Partnership and Blackstone:

- . Record property and equipment of \$1,449 million
- . Record mortgage note receivable of \$66 million
- . Record increase in due from managers of \$5 million
- . Record the use of cash of \$226 million
- . Record the assumption of mortgage debt of \$638 million
- . Record the issuance of 47.5 million OP Units (including OP Units estimated to be issued in April 1999) at an estimated price of \$12.50 per OP Unit, plus \$1.00 per unit for 41.5 million OP Units for the Special Dividend, plus the issuance of 1.4 million shares of Crestline at an estimated share price of \$15.10 with a total estimated fair value of \$656 million.

The purchase price of the Blackstone properties and mortgage note was determined based on the estimated fair value of the 47.5 million OP Units and the 1.4 million shares of Crestline expected to be issued. The number of units to be issued will not increase or decrease depending on the stock price of Host Marriott at the time of closing of the acquisition, but the actual number of units to be issued will depend upon certain prorations and closing adjustments and on the deemed value of the Initial E&P Distribution which the Blackstone Entities are not entitled to receive (which will be determined 91 days after closing).

C. Represents the adjustment to record the Series C Senior Note Offering:

- . Record the issuance of \$500 million of notes, net of the discount of approximately \$2 million at issuance, and the repayment of approximately \$423 million of debt
- . Record the deferred financing fees of \$10 million

The remaining proceeds will be utilized to pay the approximate \$75 million in REIT conversion expenses

D. Represents the adjustment to record the investment in the Non-Controlled Subsidiaries and to reflect the sale of certain hotel furniture and equipment to the Non-Controlled Subsidiaries:

- . Record decrease in property and equipment of \$(212) million, including \$75 million of hotel furniture and equipment sold to the Non-Controlled Subsidiaries
- . Record receivable from Non-Controlled Subsidiaries for the furniture and equipment loan of \$75 million, and transfer of other notes totaling \$34 million

- . Record decrease in due from managers of \$1 million
- . Record investment in the Non-Controlled Subsidiaries of \$14 million
- . Record increase in other assets of \$3 million
- . Record decrease in cash of \$9 million
- . Record decrease in debt of \$68 million of debt transferred to the Non-Controlled Subsidiaries
- . Record increase in accounts payable and accrued expenses of \$4 million
- . Record increase in deferred taxes of \$6 million
- . Record decrease in other liabilities of \$38 million

E. Represents the adjustment to record the Mergers:

- . Record property and equipment of \$572 million
- . Record decrease in notes receivable of \$3 million
- . Record increase in due from managers of \$12 million
- . Record other assets of \$23 million
- . Record cash of \$7 million
- . Record debt of \$323 million
- . Record accounts payable and accrued expenses of \$9 million
- . Record decrease in other liabilities of \$21 million
- . Record the issuance of 24.0 million OP Units totaling approximately \$300 million

The purchase price and number of OP Units expected to be issued to the limited partners of each Partnership is (in millions, except OP Units in thousands):

	PURCHASE PRICE	NUMBER OF OP UNITS	INCREASE TO PROPERTY AND EQUIPMENT
Atlanta Marquis.....	\$ 24	1,921	\$ 24
Desert Springs.....	37	2,943	36
Hanover.....	5	434	5
MHP.....	85	6,817	66
MHP II.....	84	6,674	78
Chicago Suites.....	11	891	38
MDAH.....	45	3,595	162
PHLP.....	9	725	163
	-----	-----	-----
	\$300	24,000	\$572
	====	=====	====

The number of OP Units was determined based on the purchase price and an estimated price of an OP Unit of \$12.50 which is based upon the recent trading range of Host Marriott Corporation's stock as adjusted for the dividend of Crestline and the Special Dividend to its shareholders. The purchase price was determined based on the fair market value of the net assets to be acquired.

The purchase price for minority interests (Atlanta Marquis, Desert Springs, Hanover, MHP and MHP2) was allocated to property to the extent that the purchase price exceeded the minority interest liability recorded. The purchase price for the other three partnerships that are presently not consolidated was allocated in accordance with APB Opinion No. 16 with the debt of each partnership recorded at estimated fair value, all assets and liabilities, except for property being recorded at historical carrying values of each partnership with the residual allocated to property. The amounts allocated to property are in all cases less than estimated current replacement cost.

F. Represents the adjustment to record the purchase of the remaining minority interests in four Private Partnerships:

- . Record property and equipment of \$61 million
- . Record decrease in other assets of \$11 million
- . Record use of cash of \$11 million
- . Record decrease in minority interest liabilities of \$6 million
- . Record the issuance of 3.6 million OP Units totaling approximately \$45 million

G. Represents the estimated \$247 million cash payment of the Special Dividend to shareholders of Host Marriott and the Blackstone Entities as partial consideration for the Blackstone Acquisition, which when combined with the value of the Crestline common stock to be distributed to shareholders of Host (estimated to be approximately \$1.53 per share for a total Initial E&P Distribution of approximately \$2.53 per share) will represent the Initial E&P Distribution. The aggregate value of the Crestline common stock and the Special Dividend to be distributed to Host stockholders (and the Blackstone Entities) in connection with the Initial E&P Distribution and the Blackstone Acquisition is currently estimated to be approximately \$582 million, of which approximately \$247 million is expected to be represented by the Special Dividend.(/1/)

H. Represents the adjustment to record the transfer of working capital to Crestline related to the leasing of the Operating Partnership's hotels by decreasing working capital and recording a receivable from the lessee of \$85 million and the adjustment to record deferred revenue of \$320 million in connection with the application of EITF 98-9 to the Operating Partnership's rental income.

I. Represents the adjustment to record the effect on deferred taxes for the change in tax status resulting from the REIT Conversion by decreasing deferred taxes and increasing equity by \$195 million.

J. The Operating Partnership's pro forma aggregate debt maturities at September 11, 1998, excluding \$8 million of capital lease obligations and the \$8 million debt discount recorded in conjunction with the Senior Notes Refinancing, are (in millions):

1998.....	\$ 236
1999.....	130
2000.....	133
2001.....	98
2002.....	148
Thereafter.....	4,801

	\$5,546
	=====

K. The estimated number of OP Units includes the following (in millions):

Limited Partner interests of Host REIT.....	204.3
General Partner interests of Host REIT.....	0.2
Limited Partner interests of Partnerships.....	24.0
Limited Partner interests of Private Partnerships.....	3.6
Limited Partner interests of Blackstone Group.....	47.5

Total OP Units.....	279.6
	=====

L. Represents the adjustment to record the contribution of \$15 million in cash to Crestline as a reduction in equity and to record the sale of an investment of approximately \$7 million in a joint venture which holds a mortgage note of approximately \$130 million from a consolidated subsidiary of Host.

(1) The amount of earnings and profit distribution shown reflects only the estimated distribution to be made in connection with the REIT Conversion. The actual amount of the distribution will be based in part upon the estimated amount of Host's accumulated earnings and profits for tax purposes. To the extent that the distributions made in connection with the Initial E&P Distribution are not sufficient to eliminate Host's estimated accumulated earnings and profits, Host REIT will make one or more additional taxable distributions to its shareholders (in the form of cash or securities) prior to the last day of its first full taxable year as a REIT (currently expected to be December 31, 1999) in an amount intended to be sufficient to eliminate such earnings and profits, and the Operating Partnership will make corresponding distributions to all holders of OP Units (including Host REIT) in an amount sufficient to permit Host REIT to make such additional distributions.

earnings (losses) of affiliates.....	(3)	--	--	--	--	--	--	(2)
Other revenues..	(5)	--	--	--	--	--	--	4
Total revenues..	(22)	56	--	--	--	(560)	--	565
OPERATING COSTS AND EXPENSES								
Hotels.....	(12)	37	2	--	--	(207)	--	412
Other.....	--	--	--	--	--	--	--	15
Total operating costs and expenses.....	(12)	37	2	--	--	(207)	--	427
OPERATING PROFIT.....	(10)	19	(2)	--	--	(353)	--	138
Minority interest.....	3	18	1	--	--	--	--	(14)
Corporate expenses.....	--	--	--	--	--	--	--	(30)
REIT Conversion expenses.....	--	--	--	--	14	--	--	--
Interest expense.....	3	(21)	--	--	--	--	--	(333)
Dividends on Convertible Preferred Securities.....	--	--	--	--	--	--	--	--
Interest income.....	2	1	--	(5)	(2)	7	--	18
Income (loss) before income taxes.....	(2)	17	(1)	(5)	12	(346)	--	(221)
Benefit (provision) for income taxes...	1	(7)	--	2	(5)	138	(73)	11
Income (loss) before extraordinary items.....	\$ (1)	\$ 10	\$ (1)	\$ (3)	\$ 7	\$ (208)	\$ (73)	\$(210)
Basic loss per OP Unit.....								\$(.75)
Ratio of earnings to fixed charges..								N/A
Deficiency of earnings to fixed charges								\$(203)

See Notes to the Unaudited Pro Forma Statements of Operations.

OPERATING COSTS AND EXPENSES									
Hotels.....	--	(9)	52	2	--	--	(275)	--	614
Other.....	--	(18)	--	--	--	--	--	--	11

Total operating costs and expenses.....	--	(27)	52	2	--	--	(275)	--	625

OPERATING PROFIT.....	--	(11)	22	(2)	--	--	(45)	--	527
Minority interest.....	--	4	17	1	--	--	--	--	(10)
Corporate expenses.....	--	1	--	--	--	--	--	--	(44)
Interest expense.....	(62)	5	(25)	--	--	--	--	--	(479)
Dividends on Convertible Preferred Securities.....	--	--	--	--	--	--	--	--	--
Interest income.....	(3)	4	1	--	(8)	--	10	--	21

Income (loss) before income taxes...	(65)	3	15	(1)	(8)	--	(35)	--	15
Benefit (provision) for income taxes...	26	(3)	(6)	--	3	--	14	10	(1)

Income (loss) before extraordinary items	\$ (39)	\$ --	\$ 9	\$ (1)	\$ (5)	\$--	\$ (21)	\$ 10	14
=====									
Basic loss per OP Unit.....									\$.05
=====									
Ratio of earnings to fixed charges...									1.1x
=====									

See Notes to the Unaudited Pro Forma Statements of Operations.

NOTES TO UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS
ASSUMING 100% PARTICIPATION WITH NO NOTES ISSUED

A. Represents the adjustment to reduce revenues, operating expenses, corporate expenses, interest expense, interest income and income taxes for the spin-off of Crestline.

B. Represents the adjustment to record the historical revenues, operating expenses, interest expense, income taxes and to reduce interest income associated with the acquisition of the equity and debt interests for the Blackstone Acquisition.

C. Represents the adjustment to record the historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income associated with the 1998 acquisition of, or purchase of controlling interests in 11 full-service properties.

D. Represents the adjustment to record the historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income associated with the 1997 acquisition of, or purchase of controlling interests in, 18 full-service properties.

E. Represents the adjustment to record historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income for the 1998 sale of the New York Marriott East Side and the Napa Valley Marriott, including the elimination of the non-recurring gains on the sales totalling \$50 million and related taxes of \$20 million in 1998.

F. Represents the adjustment to reduce the interest expense, interest income and to record income taxes associated with the refinancing or payoff of mortgage debt for three full-service properties (Marriott's Orlando World Center, the Philadelphia Marriott and the San Francisco Marriott).

G. Represents the adjustment to record interest expense and related amortization of deferred financing fees, reduce interest income, and to record income taxes as a result of the Senior Note Refinancing and the Series C Senior Notes Offering. The net adjustment of \$27 million for the First Three Quarters 1998 is comprised of \$85 million of interest expense related to the New Senior Notes (including deferred financing fee amortization of \$3 million), \$20 million of net interest expense related to the New Credit Facility (including deferred financing fee amortization of \$2 million) plus \$30 million of interest expense related to the Series C Senior Notes Offering (including deferred financing fee amortization of \$.7 million), less \$88 million of interest expense related to the Old Senior Notes (including deferred financing fee amortization of \$2 million) less \$20 million of interest expense related to the mortgage debt refinanced in conjunction with the Series C Senior Note Offering. The net adjustment of \$62 million for fiscal year 1997 is comprised of \$139 million of interest expense related to the New Senior Notes (including deferred financing fee amortization of \$4 million), \$25 million of interest expense related to the New Credit Facility (including deferred financing fee amortization of \$2 million) plus \$43 million of interest expense related to the Series C Senior Notes Offering (including deferred financing fee amortization of \$1 million), less \$116 million of interest expense related to the Old Senior Notes (including deferred financing fee amortization of \$3 million) less \$29 million of interest expense related to the mortgage debt refinanced in conjunction with the Series C Senior Note Offering. The adjustment excludes the extraordinary loss of \$148 million, net of taxes, related to the Senior Note Refinancing resulting from the write-off of deferred financing fees and the payment of bond tender and consent fees.

H. Represents the adjustment for revenues, operating expenses, minority interest, interest expense, corporate expenses, income taxes and interest income to deconsolidate the Non-Controlled Subsidiaries and reflect the Operating Partnership's share of income as equity in earnings of affiliate.

I. Represents the adjustment to reduce depreciation expense of \$7 million and \$11 million for First Three Quarters 1998 and fiscal year 1997 related to certain furniture and equipment sold to the Non-Controlled Subsidiary, record interest income of \$4 million and \$5 million for First Three Quarters 1998 and fiscal year 1997 earned on the 7%, \$75 million in notes from the Non-Controlled Subsidiaries and reduce the lease payment to the Operating Partnership from the Lessee.

J. Represents the adjustment to record the historical revenues, operating expenses, minority interest, interest expense, interest income and income taxes associated with the Mergers, including three partnerships not previously consolidated by the Operating Partnership.

K. Represents the adjustment to record additional depreciation expense and the decrease in minority interest expense related to the purchase of the remaining minority interests in the Private Partnerships.

L. Represents the adjustment to reduce interest income and income taxes for the estimated \$247 million cash payment of the Special Dividend to shareholders of Host Marriott (and the Blackstone Entities).

M. Represents the adjustment to remove hotel revenues, management fees and other expenses of \$224 million and \$288 million, respectively, for First Three Quarters 1998 and fiscal year 1997, and to record rental revenues associated with the leasing of certain hotel properties to Crestline and other lessees and interest income of \$3 million and \$5 million for First Three Quarters 1998 and fiscal year 1997 earned on the 6%, \$85 million in notes from Crestline. First Three Quarters 1998 included a \$320 million reduction to rental income to record deferred revenue for percentage rents in accordance with EITF 98-9. Management believes the change to the lease structure described above will not impact hotel operating results because the hotel manager and asset management function will remain unchanged. Rental revenues under the Leases are based on the greater of Percentage Rent or Minimum Rent. Except as noted total rent in the pro forma statement of operations is calculated based on the historical gross sales of the property and the negotiated rental rates and thresholds by property as if the leases were entered into on the first day of fiscal year 1997. There are generally three sales categories utilized in the rent calculation: rooms, food and beverage and other. For rooms and food and beverage, there are three tiers of rent with two thresholds, while the other category generally has two tiers of rent and one threshold. The percentage rent thresholds are increased annually on the first day of each year after the initial lease year based on a blended increase of the Consumer Price Index ("CPI") and a wage and benefit index. For purposes of the pro formas, 1997 is the assumed initial lease year and the blended increase applied to the thresholds at January 3, 1998 is assumed to be 3%. Minimum rent is expressed as a fixed dollar amount that increases annually on the first day of each year after the initial lease year as 50% of the CPI increase. Accordingly, the 1998 rent thresholds and minimum rent included in the pro formas were adjusted as of January 3, 1998 for the 1997 increases in the indices. Rental revenues is recognized only for leases to be executed with Crestline at or prior to completion of the REIT Conversion. The execution of the leases is dependent upon the distribution of the Crestline common stock to the Host's stockholders, and to certain contingencies that are outside the control of the Operating Partnership, including consent of shareholders, lenders, debt holders, partners and ground lessors of Host. The Operating Partnership believes that negotiations with third parties to complete the REIT Conversion will not result in any material change to the leases. The table below details gross sales, minimum rent and total rent for all full-service properties to be leased and summarized amounts for the limited-service properties to be subleased:

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998			TOTAL RENT RECOGNIZED
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	
(IN MILLIONS)							
Grand Hotel Resort and Golf Club.....	\$23.4	\$2.8	\$4.2	\$18.0	\$2.0	\$3.7	\$2.0
Scottsdale Suites.....	11.9	3.0	5.0	8.2	2.1	3.4	2.1
The Ritz-Carlton, Phoenix..	23.3	4.6	7.2	17.3	3.2	5.5	3.2
Coronado Island Resort....	22.0	2.1	2.1	16.2	1.5	3.6	1.5
Costa Mesa Suites.....	9.7	1.9	3.3	7.2	1.3	2.3	1.3
Desert Springs Resort and Spa.....	103.3	21.3	30.3	80.3	15.0	22.6	15.0
Manhattan Beach.....	16.3	2.4	4.8	12.2	1.7	3.6	1.7
Marina Beach	21.1	4.6	7.1	16.9	3.2	6.2	3.2
Newport Beach.....	33.5	5.5	8.7	24.0	3.9	6.8	3.9
Newport Beach Suites.....	11.0	2.6	4.1	8.0	1.8	3.0	1.8
Ontario Airport.....	12.1	1.8	3.4	8.3	1.3	2.2	1.3
San Diego Marriott Hotel and Marina.....	103.3	38.0	39.6	78.6	26.7	31.1	26.7
San Diego Mission Valley...	16.7	3.4	5.1	12.6	2.4	5.6	2.5
San Francisco Airport.....	43.8	8.2	13.2	32.2	5.8	9.5	5.8
San Francisco Fisherman's Wharf.....	17.8	4.0	6.4	12.1	2.8	4.3	2.8
San Francisco Moscone Center.....	120.2	20.7	37.9	90.5	14.6	28.5	14.6
San Ramon.....	19.7	4.4	5.1	14.4	3.1	4.0	3.1
Santa Clara.....	47.3	7.8	16.5	37.2	5.5	13.5	8.8
The Ritz-Carlton, Marina del Rey.....	32.4	5.5	10.8	23.4	3.9	7.9	3.9
The Ritz-Carlton, San Francisco.....	50.1	9.6	14.7	34.2	6.7	10.3	6.7
Torrance.....	20.5	2.3	3.5	15.0	1.6	5.1	1.6
Denver Southeast.....	21.5	3.0	6.2	14.9	2.1	4.1	2.1
Denver Tech Center.....	26.8	5.1	8.3	20.1	3.6	6.0	3.6
Denver West.....	13.7	1.8	4.0	9.6	1.2	2.7	1.7
Marriott's Mountain Resort at Vail.....	17.6	3.0	5.1	14.1	2.1	4.5	2.1
Hartford/Farmington.....	18.4	3.5	4.7	13.4	2.4	3.5	2.4
Hartford/Rocky Hill.....	11.6	1.5	2.7	8.5	1.1	2.0	1.1
Fort Lauderdale Marina....	28.5	4.3	7.9	20.4	3.0	5.7	3.2
Harbor Beach Resort(2)....	58.1	16.5	19.3	43.2	11.6	14.0	11.6
Jacksonville.....	11.8	1.8	3.6	8.0	1.2	2.4	1.2
Miami Airport.....	29.7	3.9	8.4	21.6	2.8	6.1	2.9

Orlando World Center.....	128.2	23.5	39.6	98.7	16.5	30.4	18.3
Palm Beach Gardens.....	11.8	1.9	3.7	8.5	1.4	3.0	1.4
Singer Island (Holiday Inn).....	6.6	1.4	2.5	5.2	1.0	2.1	1.0
Tampa Airport.....	17.1	1.6	3.5	13.1	1.1	2.7	1.1
Tampa Westshore.....	15.0	1.8	3.6	10.8	1.3	2.6	1.3

FISCAL YEAR 1997 FIRST THREE QUARTERS 1998

PROPERTY	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	TOTAL RENT RECOGNIZED
(IN MILLIONS)							
The Ritz-Carlton, Naples..	\$ 66.4	\$ 18.1	\$ 23.3	\$ 53.1	\$ 12.7	\$ 18.0	\$ 12.7
Atlanta Marriott Marquis..	85.4	21.3	33.3	58.6	15.0	25.6	15.0
Atlanta Midtown Suites....	10.5	1.8	3.5	7.8	1.3	2.6	1.3
Atlanta Norcross.....	7.6	1.0	1.7	5.6	0.7	1.2	0.7
Atlanta Northwest.....	14.9	2.7	4.3	11.3	1.9	3.3	1.9
Atlanta Perimeter.....	16.6	2.5	4.5	12.6	1.7	3.5	1.7
JW Marriott Hotel at Lenox.....	24.8	3.7	6.8	17.7	2.6	5.0	2.6
The Ritz-Carlton, Atlanta.....	30.2	5.8	8.8	21.7	4.1	6.8	4.1
The Ritz-Carlton, Buckhead.....	49.3	13.1	16.3	35.8	9.2	11.7	9.2
Chicago/Deerfield Suites..	10.2	1.8	3.1	7.4	1.3	2.3	1.3
Chicago/Downers Grove Suites.....	9.0	1.8	2.9	6.7	1.3	2.2	1.3
Chicago/Downtown Courtyard.....	16.3	3.1	4.9	12.2	2.2	3.9	2.2
Chicago O'Hare.....	40.0	5.5	11.5	28.8	3.9	8.2	3.9
South Bend.....	9.9	1.1	2.1	7.0	0.8	1.5	0.8
New Orleans	66.4	17.5	21.8	47.6	12.3	15.8	12.3
Bethesda.....	23.2	3.2	5.6	17.3	2.2	4.1	2.2
Gaithersburg/Washingtonian Center.....	13.2	2.4	3.8	9.7	1.7	2.8	1.7
Boston/Newton.....	27.4	4.8	7.8	19.1	3.4	5.5	3.4
Detroit Romulus.....	8.8	1.1	1.8	6.6	0.8	1.4	0.8
The Ritz-Carlton, Dearborn.....	25.7	3.6	5.5	17.7	2.5	4.0	2.5
Minneapolis/Bloomington...	20.2	3.3	6.5	13.8	2.3	4.7	3.1
Minneapolis City Center...	27.5	3.7	7.5	20.4	2.4	5.2	2.4
Minneapolis Southwest....	14.9	2.7	4.8	10.1	1.9	4.0	1.9
Kansas City Airport.....	14.3	1.7	3.7	9.9	1.2	2.5	1.2
Nashua.....	7.5	0.8	1.3	5.3	0.5	0.9	0.5
Hanover.....	22.5	4.7	6.6	15.1	3.3	4.3	3.9
Newark Airport.....	39.4	6.5	11.8	29.2	4.6	8.6	4.6
Park Ridge.....	16.0	2.5	4.0	11.9	1.7	4.2	1.7
Saddle Brook.....	10.7	1.3	2.1	7.8	0.9	1.7	0.9
Albany.....	18.5	3.5	6.1	12.4	2.5	5.2	2.7
New York Marriott Financial Center.....	39.6	7.7	13.2	29.1	5.4	10.1	5.4
New York Marriott Marquis.....	210.3	40.0	60.8	155.4	29.7	47.6	29.7
Marriott World Trade Center.....	65.4	12.2	19.4	49.1	8.6	14.9	8.6
Charlotte Executive Park..	14.0	2.3	3.7	9.8	1.6	2.6	1.6
Raleigh Crabtree Valley...	14.9	2.4	3.9	10.9	1.7	2.8	1.7
Oklahoma City.....	15.6	2.0	3.8	10.4	1.4	2.4	1.4
Oklahoma City Waterford...	9.1	1.5	2.7	6.1	1.0	1.7	1.0
Portland.....	26.4	4.1	7.5	17.6	2.9	4.8	2.9
Philadelphia (Convention Center).....	80.7	14.2	25.0	58.2	10.0	17.8	10.0
Philadelphia Airport.....	25.0	4.1	7.6	18.6	2.9	5.6	2.9
Pittsburgh City Center....	16.4	1.9	3.0	11.1	1.3	2.2	1.3
Memphis.....	10.6	1.5	3.2	5.7	1.0	1.8	1.0
Dallas/Fort Worth.....	28.9	5.9	9.3	21.9	4.1	7.0	4.1
Dallas Quorum.....	25.7	4.2	8.2	18.3	3.0	5.8	3.7
El Paso.....	11.6	0.9	2.3	7.8	0.6	1.4	0.6
Houston Airport	21.6	2.8	6.0	16.9	2.0	4.6	2.7
JW Marriott Houston.....	27.2	5.0	8.0	20.1	3.5	5.9	3.5
Plaza San Antonio.....	13.8	2.9	4.6	9.7	2.0	3.3	2.0
San Antonio Rivercenter...	68.9	17.5	24.5	49.3	12.3	17.8	12.3
San Antonio Riverwalk....	29.3	6.1	10.3	21.7	4.3	7.6	4.4
Salt Lake City.....	28.5	5.6	9.5	21.1	3.9	7.2	4.2
Dulles Airport.....	14.6	1.8	4.0	10.9	1.2	3.0	1.7
Key Bridge.....	29.4	5.6	10.2	21.2	3.9	7.4	3.9
Norfolk Waterside.....	18.1	3.3	5.4	12.8	2.4	3.8	2.4
Pentagon City Residence Inn.....	11.7	3.5	5.5	8.7	2.5	4.2	2.5
The Ritz-Carlton, Tysons Corner.....	34.4	5.9	9.8	24.9	4.1	7.3	4.1
Washington Dulles Suites..	10.3	2.5	4.0	7.8	1.8	3.0	1.8

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998			
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	TOTAL RENT RECOGNIZED
(IN MILLIONS)							
Westfields.....	\$ 28.0	\$ 4.7	\$ 7.4	\$ 20.3	\$ 3.3	\$ 5.4	\$ 3.3
Williamsburg.....	12.6	1.8	2.8	9.3	1.3	2.1	1.3
Washington Metro Center.....	25.2	4.5	7.3	19.2	3.2	5.3	3.2
Calgary.....	13.4	1.7	1.7	9.8	1.2	2.3	1.2
Toronto Airport.....	17.1	2.9	5.6	13.0	2.0	4.2	2.0
Toronto Eaton Centre....	21.1	6.1	7.1	16.0	4.3	5.6	4.3
Toronto Delta Meadowvale.....	16.1	2.6	4.9	10.6	1.9	3.1	1.9
Fairview Park.....	22.5	3.9	7.3	16.3	2.8	5.2	2.8
Dayton.....	18.2	3.2	6.0	13.4	2.3	4.3	2.3
Research Triangle Park..	9.1	1.4	2.9	6.8	1.0	2.3	1.0
Detroit Marriott Southfield.....	8.8	1.2	2.1	6.9	0.9	1.7	0.9
Detroit Marriott Livonia.....	10.0	1.4	2.6	7.4	1.0	1.9	1.0
Fullerton.....	6.8	1.2	1.8	5.0	0.8	1.3	0.8
Marriott O'Hare Suites..	14.4	2.7	4.9	10.8	1.9	4.0	1.9
Albuquerque.....	16.4	3.6	3.6	11.1	2.5	2.6	2.5
Greensboro-High Point...	13.6	3.3	3.3	10.2	2.3	2.4	2.3
Houston Medical Center..	16.5	4.0	4.0	12.2	2.8	2.9	2.8
Miami Biscayne Bay.....	26.8	6.5	6.6	20.5	4.5	5.1	4.5
Marriott Mountain Shadows Resort.....	24.1	4.4	4.5	16.9	3.1	3.1	3.1
Seattle SeaTac Airport..	23.1	6.7	6.7	17.5	4.7	5.1	4.7
Four Seasons, Atlanta...	15.6	5.8	5.9	14.2	4.1	4.5	4.1
Four Seasons, Philadelphia.....	41.1	7.9	12.4	30.6	5.6	10.1	5.6
Grand Hyatt, Atlanta....	25.3	10.0	10.0	22.6	7.0	8.2	7.0
Hyatt Regency, Burlingame.....	47.9	8.8	17.6	39.5	6.2	15.1	9.0
Hyatt Regency, Cambridge.....	32.4	6.7	11.9	26.8	4.7	10.4	6.1
Hyatt Regency, Reston...	30.5	6.5	11.3	24.2	4.5	9.2	4.8
Swissotel, Atlanta.....	22.2	5.0	6.3	17.2	3.5	5.8	3.5
Swissotel, Boston.....	26.8	6.4	8.5	20.5	4.5	6.9	4.5
Swissotel, Chicago.....	38.1	10.9	15.1	28.9	7.7	12.0	7.7
The Drake (Swissotel), New York.....	38.8	11.6	13.6	34.2	8.2	13.4	8.2
The Ritz-Carlton, Amelia Island.....	45.7	10.3	13.4	37.4	7.2	11.1	7.2
The Ritz-Carlton, Boston.....	40.1	6.9	10.5	31.4	4.8	8.8	4.8
Non-Controlled Subsidiary Rent.....	--	(16.5)	(16.5)	--	(11.4)	(11.4)	(11.4)
Total Full-service Properties.....	3,600.8	699.4	1,079.1	2,671.0	493.1	826.9	507.3
Total Courtyard Properties(3).....	212.0	50.6	57.3	159.2	35.0	42.2	42.2
Total Residence Inns(3).....	69.9	17.2	19.6	50.6	12.0	13.9	13.9
Total.....	\$3,882.7	\$767.2	\$1,156.0	\$2,880.8	\$540.1	883.0	\$563.4
Less: Deferred rent under EITF 98-9.....						(319.6)	
Total rent recognized.....						\$ 563.4	

N. Represents the adjustment to eliminate interest income recorded for the \$92 million note receivable contributed to Crestline for the First Three Quarters 1998.

O. Represents the adjustment to the income tax provision to reflect the REIT Conversion.

P. Represents the adjustment to eliminate non-recurring expenses incurred in connection with the REIT Conversion. Management expects that the total estimated non-recurring expenses to be incurred will be approximately \$75 million.

(1) The amount of earnings and profit distribution shown reflects only the estimated distribution to be made in connection with the REIT Conversion. The actual amount of the distribution will be based in part upon the

estimated amount of Host's accumulated earnings and profits for tax purposes. To the extent that the distributions made in connection with the Initial E&P Distribution are not sufficient to eliminate Host's estimated accumulated earnings and profits, Host REIT will make one or more additional taxable distributions to its shareholders (in the form of cash or securities) prior to the last day of its first full taxable year as a REIT (currently expected to be December 31, 1999) in an amount intended to be sufficient to eliminate such earnings and profits, and the Operating Partnership will make corresponding distributions to all holders of OP Units (including Host REIT) in an amount sufficient to permit Host REIT to make such additional distributions.

- (2) The Harbor Beach Resort minimum and total rent is not calculated using historical gross sales but instead is based on gross profit. The total rent is greater than the amounts shown, but such difference is not material for the periods presented.
- (3) The Courtyard and Residence Inn properties will be subleased by subsidiaries of the Company to subsidiaries of Crestline under sublease agreements. The owners of these properties have not yet consented to the subleases but have agreed to waive any defaults under the related leases until February 17, 1999 to provide the Company with additional time to obtain such consents (which could require modifications in the terms of the subleases or structural or other changes related thereto). The Company expects to obtain such consents during this period, but if such consents are not obtained, the Company may be required to terminate the subleases and contribute to a Non-Controlled Subsidiary its equity interests in the subsidiaries leasing these properties. This change would have the effect of reducing the Company's revenues by \$54 million and \$75 million for the First Three Quarters 1998 and fiscal year 1997, respectively, and increasing the Company's net income by approximately \$2 million for each period. The Company does not believe that any changes that might be required to the subleases would result in material changes to the lease terms.

UNAUDITED PRO FORMA BALANCE SHEET
 SEPTEMBER 11, 1998
 100% PARTICIPATION WITH NOTES ISSUED
 (IN MILLIONS, EXCEPT OP UNIT AMOUNTS)

	ACQUISITIONS, DISPOSITIONS AND OTHER ACTIVITIES					
	A	B			C	
HOST MARRIOTT CORPORATION HISTORICAL	DISTRIBUTION ADJUSTMENT	HOST MARRIOTT HOTELS HISTORICAL	BLACKSTONE ACQUISITION	ACQUISITIONS	DEBT REPAYMENT & ISSUANCE & REFINANCING	
ASSETS						
Property and equipment, net.....	\$5,937	\$(649)	\$5,288	\$1,449	\$--	\$--
Notes and other receivables, net.....	32	(3)	29	66	--	--
Due from managers.....	88	(5)	83	5	--	--
Investments in affiliates.....	18	--	18	--	--	--
Other assets....	319	2	321	--	--	10
Receivable from Lessee for working capital.....	--	--	--	--	--	--
Cash, cash equivalents and short-term marketable securities.....	575	(27)	548	(226)	--	488 (423)
	-----	-----	-----	-----	-----	-----
	\$6,969	\$(682)	\$6,287	\$1,294	\$--	\$ 75
	=====	=====	=====	=====	=====	=====
LIABILITIES AND EQUITY						
Debt(J).....	\$4,224	\$(213)	\$4,011	\$ 638	\$--	\$498 (423) --
Convertible debt obligation to Host Marriott Corporation....	--	567	567	--	--	--
Accounts payable and accrued expenses.....	70	(23)	47	--	--	--
Deferred income taxes.....	526	(62)	464	--	--	--
Other liabilities....	447	(10)	437	--	--	--
	-----	-----	-----	-----	-----	-----
Total liabilities....	5,267	259	5,526	638	--	75
Convertible Preferred Securities.....	550	(550)	--	--	--	--
Limited Partner interests of third parties at redemption value (on a pro forma basis 51.1 million OP Units outstanding)(K)..	--	--	--	656	--	--
Equity.....						
General Partner (on a proforma basis .2 million OP Units outstanding)(K)..						
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding)(K)..	1,152	(391)	761	--	--	--
	-----	-----	-----	-----	-----	-----
	\$6,969	\$(682)	\$6,287	\$1,294	\$--	\$ 75

Book value per
OP Unit.....

Mergers and REIT Conversion Activities							
D	E	F	G	L	H	I	
NON-CONTROLLED SUBSIDIARY	MERGERS	PRIVATE PARTNERSHIPS	EARNINGS & PROFITS DISTRIBUTION(1)	CONTRIBUTION TO CRESTLINE	LEASE CONVERSION	DEFERRED TAX ADJUSTMENT	PRO FORMA
ASSETS							
Property and equipment, net.....	\$ (212)	\$ 530	\$ 61	\$ --	\$ --	\$ --	\$ 7,116
Notes and other receivables, net.....	109	(3)	--	--	--	--	201
Due from managers.....	(1)	12	--	--	(85)	--	14
Investments in affiliates.....	14	--	--	--	--	--	32
Other assets....	3	23	(11)	--	--	--	346
Receivable from Lessee for working capital.....	--	--	--	--	85	--	85
Cash, cash equivalents and short-term marketable securities.....	(9)	7	(11)	(247)	(15) 7	--	119
	\$ (96)	\$ 569	\$ 39	\$ (247)	(8)	\$ --	\$ 7,913
LIABILITIES AND EQUITY							
Debt(J).....	\$ (68)	\$ 581	\$ --	\$ --	\$ --	\$ --	\$ 5,237
Convertible debt obligation to Host Marriott Corporation....	--	--	--	--	--	--	567
Accounts payable and accrued expenses.....	4	8	--	--	--	--	59
Deferred income taxes.....	6	--	--	--	--	(195)	275
Other liabilities....	(38)	(20)	(6)	--	--	320	693
Total liabilities....	(96)	569	(6)	--	--	320	6,831
Convertible Preferred Securities.....	--	--	--	--	--	--	--
Limited Partner interests of third parties at redemption value (on a pro forma basis 51.1 million OP Units outstanding)(K)..	--	--	45	--	--	--	701
Equity.....							
General Partner (on a proforma basis .2 million OP Units outstanding)(K)..	--	--	--	(247)	(8)	(320)	195
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding)(K)..	--	--	--	(247)	(8)	(320)	195
	\$ (96)	\$ 569	\$ 39	\$ (247)	\$ (8)	\$ --	\$ 7,913

Book value per
OP Unit.....

\$ 4.24
=====

See Notes to the Unaudited Pro Forma Balance Sheet.

NOTES TO UNAUDITED PRO FORMA BALANCE SHEET
100% PARTICIPATION WITH NOTES ISSUED

A. Represents the adjustment to record the spin-off of Crestline:

- . Reduce property and equipment by \$649 million
- . Reduce receivables by \$3 million related to certain Crestline notes held by the Operating Partnership
- . Reduce due from managers by \$5 million
- . Increase other assets by \$2 million
- . Reduce cash, cash equivalents and short-term marketable securities by \$27 million
- . Reduce debt by \$213 million
- . Reduce accounts payable and accrued expenses by \$23 million
- . Reduce deferred income taxes by \$62 million
- . Reduce other liabilities by \$10 million
- . Reduce equity by \$391 million
- . Eliminate the \$550 million Convertible Preferred Securities of Host Marriott which remain an obligation of Host REIT
- . Record the \$567 million of Convertible Debt Obligation to Host Marriott which is eliminated in consolidation on the historical financial statements of Host Marriott Corporation

B. Represents the adjustment to record the Blackstone Acquisition of 12 full-service properties (5,520 rooms) and a mortgage note secured by a thirteenth full-service property including the issuance of 47.5 million OP Units as determined through negotiations between the Operating Partnership and Blackstone:

- . Record property and equipment of \$1,449 million
- . Record mortgage note receivable of \$66 million
- . Record increase in due from managers of \$5 million
- . Record the use of cash of \$226 million
- . Record the assumption of mortgage debt of \$638 million
- . Record the issuance of 47.5 million OP Units (including OP Units estimated to be issued in April 1999) at an estimated price of \$12.50 per OP Unit, plus \$1.00 per unit for 41.5 million OP Units for the Special Dividend, plus the issuance of 1.4 million shares of Crestline at an estimated share price of \$15.10 with a total estimated fair value of \$656 million.

The purchase price of the Blackstone properties and mortgage note was determined based on the estimated fair value of the 47.5 million OP Units and the 1.4 million shares of Crestline expected to be issued. The number of units to be issued will not increase or decrease depending on the stock price of Host Marriott at the time of closing of the acquisition, but the actual number of units to be issued will depend upon certain prorations and closing adjustments and on the deemed value of the Initial E&P Distribution which the Blackstone Entities are not entitled to receive (which will be determined 91 days after closing).

C. Represents the adjustment to record the Series C Senior Note Offering:

- . Record the issuance of \$500 million of notes, net of the discount of approximately \$2 million at issuance, and the repayment of approximately \$423 million of debt
- . Record the deferred financing fees of \$10 million

The remaining proceeds will be utilized to pay the approximate \$75 million in REIT conversion expenses.

D. Represents the adjustment to deconsolidate the assets and liabilities of the Non-Controlled Subsidiaries and to reflect the sale of certain hotel furniture and equipment to the Non-Controlled Subsidiaries:

- . Record decrease in property and equipment of \$(212) million, including \$75 million of hotel furniture and equipment sold to the Non-Controlled Subsidiary
- . Record receivable from Non-Controlled Subsidiary for the furniture and equipment loan of \$75 million and other notes totaling \$34 million
- . Record decrease in due from managers of \$1 million
- . Record investment in subsidiary of \$14 million
- . Record increase in other assets of \$3 million

- . Record decrease in cash of \$9 million
- . Record decrease in debt of \$68 million of debt transferred to the Non-Controlled Subsidiaries.
- . Record increase in accounts payable and accrued expenses of \$4 million
- . Record increase in deferred taxes of \$6 million
- . Record decrease in other liabilities of \$38 million

E. Represents the adjustment to record the Mergers and issuance of Notes at the Note Election Amount (the greater of Liquidation Value or 80% of Exchange Value) to the Limited Partners:

- . Record property and equipment of \$530 million
- . Record decrease in notes receivable of \$3 million
- . Record increase in due from managers of \$12 million
- . Record other assets of \$23 million
- . Record cash of \$7 million
- . Record debt of \$581 million including \$258 million of Notes to the Limited Partners at the Note Election Amount
- . Record accounts payable and accrued expenses of \$8 million
- . Record decrease in other liabilities of \$20 million

The value of 6.56% Notes expected to be issued to the limited partners of each Partnership is (in millions):

	PURCHASE PRICE-- VALUE OF NOTES ISSUED	INCREASE TO PROPERTY AND EQUIPMENT
	-----	-----
Atlanta Marquis.....	\$ 19	\$ 19
Desert Springs.....	29	29
Hanover.....	4	4
MHP.....	74	55
MHP2.....	73	67
Chicago Suites.....	11	37
MDAH.....	41	157
PHLP.....	7	162
	----	----
	\$258	\$530
	=====	=====

The purchase price for minority interests (Atlanta Marquis, Desert Springs, Hanover, MHP and MHP2) was allocated to property to the extent that the purchase price exceeded the minority interest liability recorded. The purchase price for the three partnerships that are presently not consolidated was allocated in accordance with APB Opinion Number 16 with the debt of each partnership recorded at estimated fair value, all assets and liabilities, except for property being recorded at historical carrying values of each partnership with the residual allocated to property. The amounts allocated to property are in all cases less than estimated current replacement cost.

F. Represents the adjustment to record the purchase of the remaining minority interests in four Private Partnerships:

- . Record property and equipment of \$61 million
- . Record decrease in other assets of \$11 million
- . Record use of cash of \$11 million
- . Record decrease in minority interest liabilities of \$6 million
- . Record the issuance of 3.6 million OP Units totaling approximately \$45 million

G. Represents the estimated \$247 million cash payment of the Special Dividend to shareholders of Host Marriott and the Blackstone Entities as partial consideration for the Blackstone Acquisition, which when combined with the value of the Crestline common stock to be distributed to shareholders of Host (estimated to be approximately \$1.53 per share for a total Initial E&P Distribution of approximately \$2.53 per share) will

represent the Initial E&P Distribution. The aggregate value of the Crestline common stock and the Special Dividend to be distributed to Host stockholders (and the Blackstone Entities) in connection with the Initial E&P Distribution and the Blackstone Acquisition is currently estimated to be approximately \$582 million, of which approximately \$247 is expected to be represented by the Special Dividend.(/1/)

H. Represents the adjustment to record the transfer of working capital to Crestline related to the leasing of the Operating Partnership's hotels by decreasing working capital and recording a receivable from the lessee of \$85 million and the adjustment to record \$320 million in deferred revenue in connection with the application of EITF 98-9 to the Operating Partnership's rental revenue.

I. Represents the adjustment to record the effect on deferred taxes for the change in tax status resulting from the REIT Conversion by decreasing deferred taxes and increasing equity by \$195 million.

J. The Operating Partnership's pro forma aggregate debt maturities at September 11, 1998, excluding \$8 million of capital lease obligations and the \$8 million debt discount recorded in conjunction with the Senior Note Refinancing, are (in millions):

1998.....	\$ 236
1999.....	130
2000.....	133
2001.....	98
2002.....	148
Thereafter.....	5,059

	\$5,804
	=====

K. The estimated number of OP Units includes the following (in millions):

Limited Partner interests of Host REIT.....	204.3
General Partner interests of Host REIT.....	0.2
Limited Partner interests of Private Partnerships.....	3.6
Limited Partner interests of Blackstone Group.....	47.5

Total OP Units.....	255.6
	=====

L. Represents the adjustment to record the contribution of \$15 million in cash to Crestline as a reduction in equity and to record the sale of an investment of approximately \$7 million in a joint venture which holds a mortgage note of approximately \$130 million from a consolidated subsidiary of Host.

(1) The amount of earnings and profit distribution shown reflects only the estimated distribution to be made in connection with the REIT Conversion. The actual amount of the distribution will be based in part upon the estimated amount of Host's accumulated earnings and profits for tax purposes. To the extent that the distributions made in connection with the Initial E&P Distribution are not sufficient to eliminate Host's estimated accumulated earnings and profits, Host REIT will make one or more additional taxable distributions to its shareholders (in the form of cash or securities) prior to the last day of its first full taxable year as a REIT (currently expected to be December 31, 1999) in an amount intended to be sufficient to eliminate such earnings and profits, and the Operating Partnership will make corresponding distributions to all holders of OP Units (including Host REIT) in an amount sufficient to permit Host REIT to make such additional distributions.

affiliates.....	(3)	--	--	--	--	--	--	(2)
Other revenues..	(5)	--	--	--	--	--	--	4
<hr/>								
Total revenues..	(22)	56	--	--	--	560	--	565
<hr/>								
OPERATING COSTS AND EXPENSES								
Hotels.....	(12)	36	2	--	--	(207)	--	411
Other.....	--	--	--	--	--	--	--	15
<hr/>								
Total operating costs and expenses.....	(12)	36	2	--	--	(207)	--	426
<hr/>								
OPERATING PROFIT.....								
Minority interest.....	(10)	20	(2)	--	--	(353)	--	139
Corporate expenses.....	3	18	1	--	--	--	--	(14)
REIT Conversion expenses.....	--	--	--	--	14	--	--	--
Interest expense.....	--	--	--	--	--	--	--	(30)
Dividends on Convertible Preferred Securities.....	3	(33)	--	--	--	--	--	(345)
Interest income.....	--	--	--	--	--	--	--	--
	2	1	--	(5)	(2)	7	--	18
<hr/>								
Income (loss) before income taxes.....	(10)	20	(2)	--	--	(353)	--	139
Benefit (provision) for income taxes...	(2)	6	(1)	(5)	12	(346)	--	(232)
	1	(2)	--	2	(5)	138	(77)	12
<hr/>								
Income (loss) before extraordinary items.....	\$ (1)	\$ 4	\$ (1)	\$ (3)	\$ 7	\$ (208)	\$ (77)	\$ (220)
<hr/>								
Basic loss per OP Unit.....								\$(.86)
<hr/>								
Ratio of earnings to fixed charges..								N/A
<hr/>								
Deficiency of earnings to fixed changes..								\$(214)
<hr/>								

See Notes to the Unaudited Pro Forma Statements of Operations.

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS
FISCAL YEAR 1997
100% PARTICIPATION WITH NOTES ISSUED
(IN MILLIONS, EXCEPT PER OP UNIT AMOUNTS AND RATIOS)

	ACQUISITIONS, DISPOSITIONS AND OTHER ACTIVITIES								
	A	HOST MARRIOTT		B	C	D	E		F/G
	DISTRIBUTION ADJUSTMENT	CORPORATION HISTORICAL	HOTELS HISTORICAL	BLACKSTONE ACQUISITION	1998 ACQUISITIONS	1997 ACQUISITIONS	DISPOSITIONS		DEBT REPAYMENT & REFINANCING
REVENUE									
Rental revenues.....	\$ --	\$--	\$ --	\$--	\$--	\$--	\$--	\$--	
Hotel revenues..	1,093	--	1,093	148	112	89	(23)	--	
Equity in earnings of affiliates.....	5	--	5	--	--	--	--	--	
Other revenues..	49	(37)	12	--	--	--	--	--	
Total revenues..	1,147	(37)	1,110	148	112	89	(23)	--	
OPERATING COSTS AND EXPENSES									
Hotels.....	649	--	649	101	62	42	(10)	--	
Other.....	49	(20)	29	--	--	--	--	--	
Total operating costs and expenses.....	698	(20)	678	101	62	42	(10)	--	
OPERATING PROFIT.....	449	(17)	432	47	50	47	(13)	--	
Minority interest.....	(32)	--	(32)	--	(4)	5	(1)	--	
Corporate expenses.....	(47)	2	(45)	--	--	--	--	--	
Interest expense.....	(302)	(23)	(325)	(51)	(12)	(12)	3	(62)	
Dividends on Convertible Preferred Securities.....	(37)	37	--	--	--	--	--	--	
Interest income..	52	--	52	(7)	(14)	(14)	--	(3)	
Income (loss) before income taxes.....	83	(1)	82	(11)	20	26	(11)	(65)	
Benefit (provision) for income taxes....	(36)	1	(35)	4	(8)	(10)	4	26	
Income (loss) before extraordinary items.....	\$ 47	\$--	\$ 47	\$ (7)	\$ 12	\$ 16	\$ (7)	\$(39)	
Basic earnings per OP Unit.....	1.3x		1.3x						

MERGERS AND REIT CONVERSION ACTIVITIES

	H	J	K	L	I/M	O		
	NON-CONTROLLED SUBSIDIARY	MERGERS & NOTES ISSUANCE	PRIVATE PARTNER- SHIPS	EARNINGS & PROFITS & DISTRI- BUTION(1)	OTHER REIT ACTIVITIES	LEASE CONVER- SION		INCOME TAX ADJUSTMENT
REVENUE								
Rental revenues.....	\$--	\$--	\$--	\$--	\$--	\$ 1,156	\$--	\$1,156
Hotel revenues..	(17)	74	--	--	--	(1,476)	--	--
Equity in earnings of affiliates.....	(12)	--	--	--	--	--	--	(7)
Other revenues..	(9)	--	--	--	--	--	--	3
Total revenues..	(38)	74	--	--	--	(320)	--	1,152

OPERATING COSTS AND EXPENSES								
Hotels.....	(9)	50	2	--	--	(275)	--	612
Other.....	(18)	--	--	--	--	--	--	11

Total operating costs and expenses.....	(27)	50	2	--	--	(275)	--	623

OPERATING PROFIT.....								
Minority interest.....	(11)	24	(2)	--	--	(45)	--	529
Corporate expenses.....	4	17	1	--	--	--	--	(10)
Interest expense.....	1	--	--	--	--	--	--	(44)
Dividends on Convertible Preferred Securities.....	5	(42)	--	--	--	--	--	(496)
Interest income..	--	--	--	--	--	--	--	--
	4	1	--	(8)	--	10	--	21

Income (loss) before income taxes.....	3	--	(1)	(8)	--	(35)	--	--
Benefit (provision) for income taxes....	(3)	--	--	3	--	14	5	--

Income (loss) before extraordinary items.....	\$--	\$--	\$ (1)	\$ (5)	\$--	\$ (21)	\$ 5	\$ --
=====								
Basic earnings per OP Unit.....								\$ --
=====								
Ratio of earnings to fixed charges.....								1.0x
=====								

See Notes to the Unaudited Pro Forma Statements of Operations.

NOTES TO UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS
ASSUMING 100% PARTICIPATION WITH NOTES ISSUED

A. Represents the adjustment to reduce revenues, operating expenses, corporate expenses, interest expense, interest income and income taxes for the spin-off of Crestline.

B. Represents the adjustment to record the historical revenues, operating expenses, interest expense, income taxes and to reduce interest income associated with the acquisition of the equity and debt interests for the Blackstone Acquisition.

C. Represents the adjustment to record the historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income associated with the 1998 acquisition of, or purchase of controlling interests in, 11 full-service properties.

D. Represents the adjustment to record historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income associated with the 1997 acquisition of, or purchase of controlling interests in, 18 full-service properties.

E. Represents the adjustment to record historical revenues, operating expenses, minority interest, interest expense, income taxes and to reduce interest income for the 1998 sale of the New York Marriott East Side and the Napa Valley Marriott, including the elimination of the non-recurring gains on the sales totalling \$50 million and related taxes of \$20 million in 1998.

F. Represents the adjustment to reduce the interest expense, interest income and income taxes associated with the refinancing or payoff of mortgage debt for three full-service properties (Marriott's Orlando World Center, the Philadelphia Marriott and the San Francisco Marriott).

G. Represents the adjustment to record interest expense and related amortization of deferred financing fees and reduce interest income and income taxes as a result of the Senior Note Refinancing and the Series C Senior Notes Offering. The net adjustment of \$27 million for the First Three Quarters 1998 is comprised of \$85 million of interest expense related to the New Senior Notes (including deferred financing fee amortization of \$3 million) plus \$20 million of net interest expense related to the New Credit Facility (including deferred financing fee amortization of \$2 million), plus \$30 million of interest expense related to the Series C Senior Notes Offering (including deferred financing fee amortization of \$7 million) less \$88 million of interest expense related to the Old Senior Notes (including deferred financing fee amortization of \$2 million) less \$20 million of interest expense related to the mortgage debt refinanced in conjunction with the Series C Senior Notes Offering. The net adjustment of \$62 million for fiscal year 1997 is comprised of \$139 million of interest expense related to the New Senior Notes (including deferred financing fee amortization of \$4 million), plus \$25 million of interest expense related to the New Credit Facility (including deferred financing fee amortization of \$2 million), plus \$43 million of interest expense related to the Series C Senior Notes Offering (including deferred financing fee amortization of \$1 million) less \$116 million of interest expense related to the Old Senior Notes (including deferred financing fee amortization of \$3 million) less \$29 million of interest expense related to the mortgage debt refinanced in conjunction with the Series C Senior Notes Offering. The adjustment excludes the extraordinary loss of \$148 million, net of taxes, related to the Senior Note Refinancing resulting from the write-off of deferred financing fees and the payment of bond tender and consent fees.

H. Represents the adjustment for revenues, operating expenses, minority interest, interest expense, corporate expenses, income taxes and interest income to deconsolidate the Non-Controlled Subsidiaries and reflect the Operating Partnership's share of income as equity in earnings of affiliate.

I. Represents the adjustment to reduce depreciation expense of \$7 million and \$11 million for First Three Quarters 1998 and fiscal year 1997 related to certain furniture and equipment sold to the Non-Controlled Subsidiary, record interest income of \$4 million and \$5 million for First Three Quarters 1998 and fiscal year 1997 earned on the 7%, \$75 million in notes from the Non-Controlled Subsidiary and reduce the lease payment to the Operating Partnership from the Lessee.

J. Represents the adjustment to record the historical revenues, operating expenses, minority interest, interest expense, interest income and income taxes associated with the Mergers, including three partnerships not

previously consolidated by the Operating Partnership. Interest expense reflects interest on various mortgage notes and the estimated \$258 million in 6.56% Notes issued in lieu of OP Units.

K. Represents the adjustment to record additional depreciation expense and the decrease in minority interest expense related to the purchase of the remaining minority interests in the Private Partnerships.

L. Represents the adjustment to reduce interest income and income taxes for the estimated \$247 million cash payment of the Special Dividend to shareholders of Host Marriott (and the Blackstone Entities).

M. Represents the adjustment to remove hotel revenues and management fees and other expenses of \$224 million and \$288 million, respectively, for First Three Quarters 1998 and Fiscal 1997 and record rental revenues associated with the leasing of certain hotel properties to Crestline and other lessees and interest income of \$3 million and \$5 million for First Three Quarters 1998 and fiscal year 1997 earned on the 6%, \$85 million in notes from Crestline. First Three Quarters 1998 included a \$320 million reduction to rental income to record deferred revenue for percentage rents in accordance with EITF 98-9. Management believes the change to the lease structure described above will not impact hotel operating results because the hotel manager and asset management function will remain unchanged. Rental revenues under the Leases are based on the greater of Percentage Rent or Minimum Rent. Except as noted, total Rent in the pro forma statement of operations is calculated based on the historical gross sales of the property and the negotiated pay rates and thresholds by property as if the leases were entered into on the first day of fiscal year 1997. There are generally three sales categories utilized in the rent calculation: rooms, food and beverage and other. For rooms and food and beverage, there are three tiers of rent with two thresholds, while the other category generally has two tiers of rent and one threshold. The percentage rent thresholds are increased annually on the first day of each year after the initial lease year based on a blended increase of the Consumer Price Index ("CPI") and a wage and benefit index. For purposes of the pro formas, 1997 is the assumed initial lease year and the blended increase applied to the thresholds at January 3, 1998 is assumed to be 3%. Minimum rent is expressed as a fixed dollar amount that increases annually on the first day of each year after the initial lease year as 50% of the CPI increase. Accordingly, the 1998 rent thresholds and minimum rent included in the pro formas were adjusted as of January 3, 1998 for the 1997 increases in the indices. Rental revenue is recognized only for leases to be executed with Crestline at or prior to the completion of the REIT Conversion. The execution of the leases is dependent upon distribution of the Crestline common stock to the Host's stockholders and, to certain contingencies that are outside the control of the Operating Partnership, including consent of shareholders, lenders, debt holders, partners and ground lessors of Host. The Operating Partnership believes that negotiations with third parties to complete the REIT Conversion will not result in any material change to the leases. The table below details gross sales, minimum rent and total rent for all full-service properties to be leased and summarized amounts for the limited-service properties to be subleased.

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998			TOTAL RENT RECOGNIZED
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	
(IN MILLIONS)							
Grand Hotel Resort and Golf Club.....	\$23.4	\$2.8	\$4.2	\$18.0	\$2.0	\$3.7	\$2.0
Scottsdale Suites.....	11.9	3.0	5.0	8.2	2.1	3.4	2.1
The Ritz-Carlton, Phoenix..	23.3	4.6	7.2	17.3	3.2	5.5	3.2
Coronado Island Resort.....	22.0	2.1	2.1	16.2	1.5	3.6	1.5
Costa Mesa Suites.....	9.7	1.9	3.3	7.2	1.3	2.3	1.3
Desert Springs Resort and Spa.....	103.3	21.3	30.3	80.3	15.0	22.6	15.0
Manhattan Beach.....	16.3	2.4	4.8	12.2	1.7	3.6	1.7
Marina Beach	21.1	4.6	7.1	16.9	3.2	6.2	3.2
Newport Beach.....	33.5	5.5	8.7	24.0	3.9	6.8	3.9
Newport Beach Suites.....	11.0	2.6	4.1	8.0	1.8	3.0	1.8
Ontario Airport.....	12.1	1.8	3.4	8.3	1.3	2.2	1.3
San Diego Marriott Hotel and Marina.....	103.3	38.0	39.6	78.6	26.7	31.1	26.7
San Diego Mission Valley..	16.7	3.4	5.1	12.6	2.4	5.6	2.5
San Francisco Airport.....	43.8	8.2	13.2	32.2	5.8	9.5	5.8
San Francisco Fisherman's Wharf.....	17.8	4.0	6.4	12.1	2.8	4.3	2.8
San Francisco Moscone Center.....	120.2	20.7	37.9	90.5	14.6	28.5	14.6

FISCAL YEAR 1997 FIRST THREE QUARTERS 1998

PROPERTY	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	TOTAL RENT RECOGNIZED
(IN MILLIONS)							
San Ramon.....	\$ 19.7	\$ 4.4	\$ 5.1	\$ 14.4	\$ 3.1	\$ 4.0	\$ 3.1
Santa Clara.....	47.3	7.8	16.5	37.2	5.5	13.5	8.8
The Ritz-Carlton, Marina del Rey.....	32.4	5.5	10.8	23.4	3.9	7.9	3.9
The Ritz-Carlton, San Francisco.....	50.1	9.6	14.7	34.2	6.7	10.3	6.7
Torrance.....	20.5	2.3	3.5	15.0	1.6	5.1	1.6
Denver Southeast.....	21.5	3.0	6.2	14.9	2.1	4.1	2.1
Denver Tech Center.....	26.8	5.1	8.3	20.1	3.6	6.0	3.6
Denver West.....	13.7	1.8	4.0	9.6	1.2	2.7	1.7
Marriott's Mountain Resort at Vail.....	17.6	3.0	5.1	14.1	2.1	4.5	2.1
Hartford/Farmington.....	18.4	3.5	4.7	13.4	2.4	3.5	2.4
Hartford/Rocky Hill.....	11.6	1.5	2.7	8.5	1.1	2.0	1.1
Fort Lauderdale Marina....	28.5	4.3	7.9	20.4	3.0	5.7	3.2
Harbor Beach Resort(2)....	58.1	16.5	19.3	43.2	11.6	14.0	11.6
Jacksonville.....	11.8	1.8	3.6	8.0	1.2	2.4	1.2
Miami Airport.....	29.7	3.9	8.4	21.6	2.8	6.1	2.9
Orlando World Center.....	128.2	23.5	39.6	98.7	16.5	30.4	18.3
Palm Beach Gardens.....	11.8	1.9	3.7	8.5	1.4	3.0	1.4
Singer Island (Holiday Inn).....	6.6	1.4	2.5	5.2	1.0	2.1	1.0
Tampa Airport.....	17.1	1.6	3.5	13.1	1.1	2.7	1.1
Tampa Westshore.....	15.0	1.8	3.6	10.8	1.3	2.6	1.3
The Ritz-Carlton, Naples..	66.4	18.1	23.3	53.1	12.7	18.0	12.7
Atlanta Marriott Marquis..	85.4	21.3	33.3	58.6	15.0	25.6	15.0
Atlanta Midtown Suites....	10.5	1.8	3.5	7.8	1.3	2.6	1.3
Atlanta Norcross.....	7.6	1.0	1.7	5.6	0.7	1.2	0.7
Atlanta Northwest.....	14.9	2.7	4.3	11.3	1.9	3.3	1.9
Atlanta Perimeter.....	16.6	2.5	4.5	12.6	1.7	3.5	1.7
JW Marriott Hotel at Lenox.....	24.8	3.7	6.8	17.7	2.6	5.0	2.6
The Ritz-Carlton, Atlanta.....	30.2	5.8	8.8	21.7	4.1	6.8	4.1
The Ritz-Carlton, Buckhead.....	49.3	13.1	16.3	35.8	9.2	11.7	9.2
Chicago/Deerfield Suites..	10.2	1.8	3.1	7.4	1.3	2.3	1.3
Chicago/Downers Grove Suites.....	9.0	1.8	2.9	6.7	1.3	2.2	1.3
Chicago/Downtown Courtyard.....	16.3	3.1	4.9	12.2	2.2	3.9	2.2
Chicago O'Hare.....	40.0	5.5	11.5	28.8	3.9	8.2	3.9
South Bend.....	9.9	1.1	2.1	7.0	0.8	1.5	0.8
New Orleans	66.4	17.5	21.8	47.6	12.3	15.8	12.3
Bethesda.....	23.2	3.2	5.6	17.3	2.2	4.1	2.2
Gaithersburg/Washingtonian Center.....	13.2	2.4	3.8	9.7	1.7	2.8	1.7
Boston/Newton.....	27.4	4.8	7.8	19.1	3.4	5.5	3.4
Detroit Romulus.....	8.8	1.1	1.8	6.6	0.8	1.4	0.8
The Ritz-Carlton, Dearborn.....	25.7	3.6	5.5	17.7	2.5	4.0	2.5
Minneapolis/Bloomington...	20.2	3.3	6.5	13.8	2.3	4.7	3.1
Minneapolis City Center...	27.5	3.7	7.5	20.4	2.4	5.2	2.4
Minneapolis Southwest.....	14.9	2.7	4.8	10.1	1.9	4.0	1.9
Kansas City Airport.....	14.3	1.7	3.7	9.9	1.2	2.5	1.2
Nashua.....	7.5	0.8	1.3	5.3	0.5	0.9	0.5
Hanover.....	22.5	4.7	6.6	15.1	3.3	4.3	3.9
Newark Airport.....	39.4	6.5	11.8	29.2	4.6	8.6	4.6
Park Ridge.....	16.0	2.5	4.0	11.9	1.7	4.2	1.7
Saddle Brook.....	10.7	1.3	2.1	7.8	0.9	1.7	0.9
Albany.....	18.5	3.5	6.1	12.4	2.5	5.2	2.7
New York Marriott Financial Center.....	39.6	7.7	13.2	29.1	5.4	10.1	5.4
New York Marriott Marquis.....	210.3	40.0	60.8	155.4	29.7	47.6	29.7
Marriott World Trade Center.....	65.4	12.2	19.4	49.1	8.6	14.9	8.6
Charlotte Executive Park..	14.0	2.3	3.7	9.8	1.6	2.6	1.6
Raleigh Crabtree Valley...	14.9	2.4	3.9	10.9	1.7	2.8	1.7
Oklahoma City.....	15.6	2.0	3.8	10.4	1.4	2.4	1.4
Oklahoma City Waterford...	9.1	1.5	2.7	6.1	1.0	1.7	1.0
Portland.....	26.4	4.1	7.5	17.6	2.9	4.8	2.9
Philadelphia (Convention Center).....	80.7	14.2	25.0	58.2	10.0	17.8	10.0

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998			TOTAL RENT RECOGNIZED
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT	
(IN MILLIONS)							
Philadelphia Airport...	\$ 25.0	\$ 4.1	\$ 7.6	\$ 18.6	\$ 2.9	\$ 5.6	\$2.9
Pittsburgh City Center..	16.4	1.9	3.0	11.1	1.3	2.2	1.3
Memphis.....	10.6	1.5	3.2	5.7	1.0	1.8	1.0
Dallas/Fort Worth.....	28.9	5.9	9.3	21.9	4.1	7.0	4.1
Dallas Quorum.....	25.7	4.2	8.2	18.3	3.0	5.8	3.7
El Paso.....	11.6	0.9	2.3	7.8	0.6	1.4	0.6
Houston Airport	21.6	2.8	6.0	16.9	2.0	4.6	2.7
JW Marriott Houston.....	27.2	5.0	8.0	20.1	3.5	5.9	3.5
Plaza San Antonio.....	13.8	2.9	4.6	9.7	2.0	3.3	2.0
San Antonio Rivercenter.....	68.9	17.5	24.5	49.3	12.3	17.8	12.3
San Antonio Riverwalk...	29.3	6.1	10.3	21.7	4.3	7.6	4.4
Salt Lake City.....	28.5	5.6	9.5	21.1	3.9	7.2	4.2
Dulles Airport.....	14.6	1.8	4.0	10.9	1.2	3.0	1.7
Key Bridge.....	29.4	5.6	10.2	21.2	3.9	7.4	3.9
Norfolk Waterside.....	18.1	3.3	5.4	12.8	2.4	3.8	2.4
Pentagon City Residence Inn.....	11.7	3.5	5.5	8.7	2.5	4.2	2.5
The Ritz-Carlton, Tysons Corner.....	34.4	5.9	9.8	24.9	4.1	7.3	4.1
Washington Dulles Suites.....	10.3	2.5	4.0	7.8	1.8	3.0	1.8
Westfields.....	28.0	4.7	7.4	20.3	3.3	5.4	3.3
Williamsburg.....	12.6	1.8	2.8	9.3	1.3	2.1	1.3
Washington Metro Center.....	25.2	4.5	7.3	19.2	3.2	5.3	3.2
Calgary.....	13.4	1.7	1.7	9.8	1.2	2.3	1.2
Toronto Airport.....	17.1	2.9	5.6	13.0	2.0	4.2	2.0
Toronto Eaton Centre....	21.1	6.1	7.1	16.0	4.3	5.6	4.3
Toronto Delta Meadowvale.....	16.1	2.6	4.9	10.6	1.9	3.1	1.9
Fairview Park.....	22.5	3.9	7.3	16.3	2.8	5.2	2.8
Dayton.....	18.2	3.2	6.0	13.4	2.3	4.3	2.3
Research Triangle Park..	9.1	1.4	2.9	6.8	1.0	2.3	1.0
Detroit Marriott Southfield.....	8.8	1.2	2.1	6.9	0.9	1.7	0.9
Detroit Marriott Livonia.....	10.0	1.4	2.6	7.4	1.0	1.9	1.0
Fullerton.....	6.8	1.2	1.8	5.0	0.8	1.3	0.8
Marriott O'Hare Suites..	14.4	2.7	4.9	10.8	1.9	4.0	1.9
Albuquerque.....	16.4	3.6	3.6	11.1	2.5	2.6	2.5
Greensboro-High Point...	13.6	3.3	3.3	10.2	2.3	2.4	2.3
Houston Medical Center..	16.5	4.0	4.0	12.2	2.8	2.9	2.8
Miami Biscayne Bay.....	26.8	6.5	6.6	20.5	4.5	5.1	4.5
Marriott Mountain Shadows Resort.....	24.1	4.4	4.5	16.9	3.1	3.1	3.1
Seattle SeaTac Airport..	23.1	6.7	6.7	17.5	4.7	5.1	4.7
Four Seasons, Atlanta...	15.6	5.8	5.9	14.2	4.1	4.5	4.1
Four Seasons, Philadelphia.....	41.1	7.9	12.4	30.6	5.6	10.1	5.6
Grand Hyatt, Atlanta....	25.3	10.0	10.0	22.6	7.0	8.2	7.0
Hyatt Regency, Burlingame.....	47.9	8.8	17.6	39.5	6.2	15.1	9.0
Hyatt Regency, Cambridge.....	32.4	6.7	11.9	26.8	4.7	10.4	6.1
Hyatt Regency, Reston...	30.5	6.5	11.3	24.2	4.5	9.2	4.8
Swissotel, Atlanta.....	22.2	5.0	6.3	17.2	3.5	5.8	3.5
Swissotel, Boston.....	26.8	6.4	8.5	20.5	4.5	6.9	4.5
Swissotel, Chicago.....	38.1	10.9	15.1	28.9	7.7	12.0	7.7
The Drake (Swissotel), New York.....	38.8	11.6	13.6	34.2	8.2	13.4	8.2
The Ritz-Carlton, Amelia Island.....	45.7	10.3	13.4	37.4	7.2	11.1	7.2
The Ritz-Carlton, Boston.....	40.1	6.9	10.5	31.4	4.8	8.8	4.8
Non-Controlled Subsidiary Rent.....	--	(16.5)	(16.5)	--	(11.4)	(11.4)	(11.4)
Total Full-service Properties.....	3,600.8	699.4	1,079.1	2,671.0	493.1	826.9	507.3
Total Courtyard Properties(3).....	212.0	50.6	57.3	159.2	35.0	42.2	42.2
Total Residence Inns(3).....	69.9	17.2	19.6	50.6	12.0	13.9	13.9
Total.....	\$3,882.7	\$767.2	\$1,156.0	\$2,880.8	\$540.1	883.0	\$563.4
Less: Deferred rent							

under EITF 98-9.....
Total rent
recognized.....

(319.6)

\$ 563.4
=====

N. Represents the adjustment to eliminate interest income recorded for the \$92 million note receivable contributed to Crestline for First Three Quarters 1998.

O. Represents the adjustment to the income tax provision to reflect the REIT Conversion.

P. Represents the adjustment to eliminate non-recurring expenses incurred in connection with the REIT Conversion. Management expects that the total estimated nonrecurring expenses to be incurred will be approximately \$75 million.

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- (1) The amount of earnings and profit distribution shown reflects only the estimated distribution to be made in connection with the REIT Conversion. The actual amount of the distribution will be based in part upon the estimated amount of Host's accumulated earnings and profits for tax purposes. To the extent that the distributions made in connection with the Initial E&P Distribution are not sufficient to eliminate Host's estimated accumulated earnings and profits, Host REIT will make one or more additional taxable distributions to its shareholders (in the form of cash or securities) prior to the last day of its first full taxable year as a REIT (currently expected to be December 31, 1999) in an amount intended to be sufficient to eliminate such earnings and profits, and the Operating Partnership will make corresponding distributions to all holders of OP Units (including Host REIT) in an amount sufficient to permit Host REIT to make such additional distributions.
- (2) The Harbor Beach Resort minimum and total rent is not calculated using historical gross sales, but instead is based on gross profit. The total rent is greater than the amounts shown, but such difference is not material for the periods presented.
- (3) The Courtyard and Residence Inn properties will be subleased by subsidiaries of the Company to subsidiaries of Crestline under sublease agreements. The owners of these properties have not yet consented to the subleases but have agreed to waive any defaults under the related leases until February 17, 1999 to provide the Company with additional time to obtain such consents (which could require modifications in the terms of the subleases or structural or other changes related thereto). The Company expects to obtain such consents during this period, but if such consents are not obtained, the Company may be required to terminate the subleases and contribute to a Non-Controlled Subsidiary its equity interests in the subsidiaries leasing these properties. This change would have the effect of reducing the Company's revenues by \$54 million and \$75 million for the First Three Quarters 1998 and fiscal year 1997, respectively, and increasing the Company's net income by approximately \$2 million for each period. The Company does not believe that any changes that might be required to the subleases would result in material changes to the lease terms.

PRO FORMA FINANCIAL INFORMATION OF HOST REIT

Given the structure of Host Marriott's Consent Solicitation, the Mergers and the REIT Conversion may take a variety of different forms. The variations are dependent in part on the number and identity of the Partnerships that merge and whether limited partners elect to tender their Partnership Interests for OP Units, REIT shares, or Notes in connection with the REIT Conversion.

In light of the number of possible variations, Host REIT and the Company are not able to describe all possible combinations of Hotel Partnerships that could compose Host REIT. All Hotel Partnerships have voted to approve the Mergers but the Mergers have not yet been completed. To assist Shareholders in analyzing the Mergers and the REIT Conversion, Host REIT and the Company have prepared two separate sets of unaudited pro forma financial statements of the Operating Partnership to show the impact of the Mergers and the REIT Conversion under various scenarios (see pro forma financial information of the Company--pg. 1).

Additionally, Host REIT and the Company have prepared pro forma financial statements of Host REIT in order to present the differences between the Operating Partnership and Host REIT. See pro forma financial information of the Company--pg. 1 for the adjustments to Host's historical financial statements necessary to arrive at Operating Partnership--Pro Forma in the accompanying pro forma financial statements of Host REIT.

The unaudited pro forma balance sheets and statements of operations of Host REIT reflect the following adjustments to the pro forma financial statements of the Operating Partnership.

- . The elimination in consolidation of the convertible debt obligation to Host Marriott of the Operating Partnership and the presentation of Company-obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust Holding Company Substantially All of Whose Assets are the Convertible Subordinated Debentures Due 2026 ("Convertible Preferred Securities") on the balance sheet of Host REIT. Interest expense paid by the Operating Partnership related to the convertible debt obligation to Host Marriott (on a pro forma basis) is eliminated and dividend expense for the Convertible Preferred Securities is reflected on the pro forma statement of operations of Host REIT.
- . The presentation of the Limited Partner interests of third parties in the Operating Partnership as minority interest in Host REIT and the reflection of Operating Partnership income allocable to the third party Limited Partners as minority interest expense of Host REIT.

The unaudited pro forma financial statements are based upon available information and upon certain assumptions as set forth in the notes to the unaudited pro forma financial statements, that Host REIT believes are reasonable under the circumstances and should be read in conjunction with the unaudited pro forma financial statements of the Operating Partnership and the consolidated financial statements and notes thereto for Host contained in the Proxy Statement of Host Marriott and the Prospectus of HMC Merger Corporation.

The execution of the leases is dependent upon the successful consummation of the REIT Conversion which is subject to contingencies that are outside the control of Host REIT, including consent of lenders, debt holders, partners and ground lessors of Host. Host REIT believes that negotiations with third parties to complete the REIT Conversion will not result in any material change to the leases.

HOST REIT

UNAUDITED PRO FORMA BALANCE SHEET

SEPTEMBER 11, 1998
 100% PARTICIPATION WITH NO NOTES ISSUED
 (IN MILLIONS, EXCEPT PER OP UNIT AND PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
ASSETS			
Property and equipment, net.....	\$7,158	\$ --	\$7,158
Notes and other receivables, net.....	201	--	201
Due from managers.....	14	--	14
Investments in affiliates.....	32	--	32
Other assets.....	346	--	346
Receivable from Lessee for working capi- tal.....	85	--	85
Cash, cash equivalents and short-term mar- ketable securities.....	119	--	119
	-----	-----	-----
Total assets.....	\$7,955	\$ --	\$7,955
	=====	=====	=====
LIABILITIES AND EQUITY			
Debt.....	\$4,979	\$ --	\$4,979
Convertible debt obligation to Host Marriott Corporation.....	567	(567)(A)	--
Accounts payable and accrued expenses.....	60	--	60
Deferred income taxes.....	275	--	275
Other liabilities.....	692	--	692
	-----	-----	-----
Total liabilities.....	6,573	(567)	6,006
	-----	-----	-----
Minority interest.....	--	371 (B)	371
Convertible Preferred Securities.....	--	550 (A)	550
Limited Partner interests of third parties at redemption value (on a pro forma basis 75.1 million OP units outstanding).....	1,001	(1,001)(C)	--
Equity			
General Partner (on a pro forma basis 0.2 million OP Units outstanding).....	--	--	--
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding).....	381	(381)(C)	--
Shareholders' Equity (on a pro forma basis 800 million shares authorized; 204.5 million issued and outstanding)...	--	17 (A) (371)(B) 1,001 (C) 381 (C)	1,028
	-----	-----	-----
	\$7,955	\$ --	\$7,955
	=====	=====	=====

HOST REIT

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FIRST THREE QUARTERS 1998
 100% PARTICIPATION WITH NO NOTES ISSUED
 (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
REVENUE			
Rental revenues.....	\$ 563	\$--	\$ 563
Other revenues.....	2	--	2
	-----	-----	-----
Total revenues.....	565	--	565
	-----	-----	-----
OPERATING COSTS AND EXPENSE			
Hotels.....	412	--	412
Other.....	15	--	15
	-----	-----	-----
Total operating costs and expenses.....	427	--	427
	-----	-----	-----
OPERATING PROFIT.....			
Minority interest.....	138	--	138
Corporate expenses.....	(14)	56 (B)	42
Interest expense.....	(30)	--	(30)
Dividends on Convertible Preferred Securities.....	(333)	26 (A)	(307)
Interest income.....	--	(26)(A)	(26)
	18	--	18
	-----	-----	-----
Income (loss) before income taxes.....	(221)	56	(165)
Benefit (provision) for income taxes.....	11	(3)	8
	-----	-----	-----
Income (loss) before extraordinary items...	\$(210)	\$ 53	\$(157)
	=====	=====	=====
Diluted loss per share.....			\$(.77)
			=====

HOST REIT

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FISCAL YEAR 1997
 100% PARTICIPATION WITH NO NOTES ISSUED
 (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
REVENUE			
Rental revenues.....	\$1,156	\$--	\$1,156
Equity in earnings (losses) of affiliates.....	(7)	--	(7)
Other revenues.....	3	--	3
	-----	-----	-----
Total revenues.....	1,152	--	1,152
	-----	-----	-----
OPERATING COSTS AND EXPENSE			
Hotels.....	614	--	614
Other.....	11	--	11
	-----	-----	-----
Total operating costs and expenses.....	625	--	625
	-----	-----	-----
OPERATING PROFIT.....			
Minority interest.....	527	--	527
Corporate expenses.....	(10)	(4)(B)	(14)
Interest expense.....	(44)	--	(44)
Dividends on Convertible Preferred Securities.....	(479)	38 (A)	(441)
Interest income.....	--	(37)(A)	(37)
	-----	-----	-----
Income (loss) before income taxes.....	21	--	21
Benefit (provision) for income taxes.....	15	(3)	12
	-----	-----	-----
Income (loss) before extraordinary items...	(1)	--	(1)
	-----	-----	-----
Income (loss) before extraordinary items...	\$ 14	\$ (3)	\$ 11
	=====	=====	=====
Diluted earnings per share.....			\$.04
			=====

HOST REIT

NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

100% PARTICIPATION WITH NO NOTES ISSUED

A. Represents the following adjustments:

- . Adjustment to remove \$567 million of convertible debt obligation to Host Marriott which eliminates in consolidation.
- . Record the \$550 million of convertible preferred securities held by Host REIT.
- . Record \$17 million adjustment to equity for the elimination in consolidation of the convertible debt obligation to Host Marriott.
- . Remove interest of \$26 million and \$38 million, respectively, on \$567 million of convertible debt obligation to Host Marriott.
- . Record dividends of \$26 million and \$37 million, respectively, on the \$550 million of convertible preferred securities.

B. Represents the adjustment to present the Limited Partner interests of third parties in the Operating Partnership as minority interest in Host REIT and the reflection of Operating Partnership income allocable to the third party Limited Partners as minority interest expense of Host REIT as follows:

- . Record \$371 million minority interest liability representing Limited Partner interests of third parties (75.1 million OP Units out of total OP Units of 279.6 million) pro rata share of total combined Operating Partnership equity and Limited Partner interests of third parties at redemption value.
- . Record adjustment to shareholders' equity of \$371 million to record the Limited Partner interests of third parties as minority interest.
- . Record minority expense based on the Limited Partner interests of third parties pro rata share of Operating Partnership net income (75.1 million OP Units out of total OP Units of 279.6 million).

C. Represents the adjustment to eliminate the Partner's Capital of the Operating Partnership and record the Common Stock, Additional Paid-in Capital, and Retained Earnings of Host REIT.

HOST REIT
UNAUDITED PRO FORMA BALANCE SHEET

SEPTEMBER 11, 1998
100% PARTICIPATION WITH NOTES ISSUED
(IN MILLIONS, EXCEPT PER OP UNIT AND PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
ASSETS			
Property and equipment, net.....	\$7,116	\$ --	\$7,116
Notes and other receivables, net.....	201	--	201
Due from managers.....	14	--	14
Investments in affiliates.....	32	--	32
Other assets.....	346	--	346
Receivable from Lessee for working capital..	85	--	85
Cash, cash equivalents and short-term marketable securities.....	119	--	119
	-----	-----	-----
Total assets.....	\$7,913	\$ --	\$7,913
	=====	=====	=====
LIABILITIES AND EQUITY			
Debt.....	\$5,237	--	5,237
Convertible debt obligation to Host Marriott Corporation.....	567	(567)(A)	--
Accounts payable and accrued expenses.....	59	--	59
Deferred income taxes.....	275	--	275
Other liabilities.....	693	--	693
	-----	-----	-----
Total liabilities.....	6,831	(567)	6,264
	-----	-----	-----
Convertible Preferred Securities.....	--	550 (A)	550
Minority interest.....	--	216 (B)	216
Limited Partner interests of third parties at redemption value (on a pro forma basis 51.1 million OP units outstanding).....	701	(701)(C)	--
Equity			
General Partner (on a pro forma basis 0.2 million OP Units outstanding).....	--	--	--
Limited Partner interests of Host REIT (on a pro forma basis 204.3 million OP Units outstanding).....	381	(381)(C)	--
Shareholders' Equity (on a pro forma basis 800 million shares authorized; 204.5 million issued and outstanding).....	--	17 (A) (216)(B) 701 (C) 381 (C)	883
	-----	-----	-----
	\$7,913	\$ --	\$7,913
	=====	=====	=====

HOST REIT
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FIRST THREE QUARTERS 1998
100% PARTICIPATION WITH NOTES ISSUED
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
REVENUE			
Rental revenues.....	\$ 563	\$--	\$ 563
Other revenues.....	2	--	2
	-----	-----	-----
Total revenues.....	565	--	565
	-----	-----	-----
OPERATING COSTS AND EXPENSE			
Hotels.....	411	--	411
Other.....	15	--	15
	-----	-----	-----
Total operating costs and expenses.....	426	--	426
	-----	-----	-----
OPERATING PROFIT.....	139	--	139
Minority interest.....	(14)	44 (B)	30
Corporate expenses.....	(30)	--	(30)
Interest expense.....	(345)	26 (A)	(319)
Dividends on Convertible Preferred Securities.....	--	(26)(A)	(26)
Interest income.....	18	--	18
	-----	-----	-----
Income (loss) before income taxes.....	(232)	44	(188)
Benefit (provision) for income taxes.....	12	(2)	10
	-----	-----	-----
Income (loss) before extraordinary items...	\$(220)	\$ 42	\$ (178)
	=====	=====	=====
Diluted loss per share.....			\$ (.87)
			=====

HOST REIT

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FISCAL YEAR 1997
 100% PARTICIPATION WITH NOTES ISSUED
 (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	OPERATING PARTNERSHIP PRO FORMA	PRO FORMA ADJUSTMENTS	HOST REIT PRO FORMA
	-----	-----	-----
REVENUE			
Rental revenues.....	\$1,156	\$ --	\$1,156
Equity in earnings (losses) of affiliates.....	(7)	--	(7)
Other revenues.....	3	--	3
	-----	-----	-----
Total revenues.....	1,152	--	1,152
	-----	-----	-----
OPERATING COSTS AND EXPENSE			
Hotels.....	612	--	612
Other.....	11	--	11
	-----	-----	-----
Total operating costs and expenses.....	623	--	623
	-----	-----	-----
OPERATING PROFIT.....	529	--	529
Minority interest.....	(10)	--	(10)
Corporate expenses.....	(44)	--	(44)
Interest expense	(496)	38 (A)	(458)
Dividends on Convertible Preferred Securities.....	--	(37)(A)	(37)
Interest income.....	21	--	21
	-----	-----	-----
Income (loss) before income taxes.....	--	1	1
Benefit (provision) for income taxes.....	--	--	--
	-----	-----	-----
Income (loss) before extraordinary items...	\$ --	\$ 1	\$ 1
	=====	=====	=====
Diluted earnings per share.....			\$ --
			=====

HOST REIT

NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

100% PARTICIPATION WITH NOTES ISSUED

A. Represents the following adjustments:

- . Adjustment to remove \$567 million of convertible debt obligations to Host Marriott which eliminates in consolidation.
- . Record the \$550 million of convertible preferred securities held by Host REIT.
- . Record \$17 million adjustment to equity for the elimination in consolidation of the convertible debt obligation to Host Marriott.
- . Remove Interest of \$26 million and \$38 million, respectively, on \$567 million of convertible debt obligation to Host Marriott.
- . Record dividends of \$26 million and \$37 million, respectively, on the \$550 million of convertible preferred securities.

B. Represents the adjustment to present the Limited Partner interests of third parties in the Operating Partnership as minority interest in Host REIT and the reflection of Operating Partnership income allocable to the third party Limited Partners as minority interest expense of Host REIT as follows:

- . Record \$216 million minority interest liability representing Limited Partner interests of third parties (51.1 million OP Units out of total OP Units of 255.6 million) pro rata share of total combined Operating Partnership equity and Limited Partner interests of third parties at redemption value.
- . Record adjustment to shareholders' equity of \$216 million to record the Limited Partner interests of third parties as minority interest.
- . Record minority expense based on the Limited Partners interests of third parties pro rata share of Operating Partnership net income (51.1 million OP Units out of total OP Units of 255.6 million).

C. Represents the adjustment to eliminate the Partner's Capital of the Operating Partnership and record the Common Stock, Additional Paid-in Capital, and Retained Earnings of Host REIT.

PRO FORMA FINANCIAL STATEMENTS OF CRESTLINE

The REIT Conversion involves a complex series of transactions not all of which necessarily have to occur in order for the REIT Conversion to be consummated. The consent of a number of lenders and several outside partners in certain key Partnerships are required in order for certain hotel properties owned by Host to be leased to the Company, and there can be no assurance that all such consents will be obtained. Accordingly, the number of hotel properties that will be leased by Crestline may vary, perhaps substantially.

The unaudited pro forma condensed consolidated statements of operations of Crestline reflect the following transactions for the First Three Quarters 1998 and for the fiscal year ended January 2, 1998, as if such transactions had been completed at the beginning of each of the periods:

- . 1997 acquisition of Forum Group, Inc. (the "Forum Acquisition") and one additional senior living community
- . 1998 retirement of \$26 million of debt through a capital contribution from Host Marriott
- . 1998 repayment and forgiveness of \$92 million of unsecured debt and \$14.8 million intercompany note treated as a capital contribution by Host
- . 1998 acquisition of one senior living community
- . 1998 acquisition of minority interests in certain consolidated subsidiaries of Crestline through contributions from Host Marriott
- . 1998 spin off of Crestline by Host Marriott and the concurrent lease or sublease of hotels from Host REIT
- . 1998 adoption of EITF 97-2 to reflect the change in presentation to present property-level sales and operating expenses
- . Acquisition from Host of a 5% interest in a joint venture which holds an approximate \$130 million mortgage note from a consolidated subsidiary of Host in connection with the REIT Conversion
- . Adjustment to corporate expenses as if Crestline were operated on a stand-alone basis, partially offset by the asset management fee to be charged to Host REIT.

The adjustments to the unaudited pro forma balance sheet of Crestline reflect the lease and sublease of substantially all of Host Marriott's owned or leased hotels and certain other transactions as described herein in conjunction with the REIT Conversion.

In 1998, Crestline acquired one senior living community for \$21 million. Also, during 1998, Host Marriott prepaid approximately \$26 million of Crestline's mortgage debt and repaid \$92 million of unsecured debt to Marriott International. The prepayment was recorded as a capital contribution to Crestline and the \$92 million was repaid in exchange for a \$92 million note due to Host Marriott with similar terms. The \$92 million note and an additional \$14.8 million intercompany note were forgiven by Host and treated as a capital contribution in the First Three Quarters 1998.

In 1997, Host Marriott Corporation acquired 29 senior living communities from Marriott International and concurrently contributed all of the assets and liabilities obtained in the Forum Acquisition to Crestline. In addition, during 1997, Crestline acquired 49% of the remaining 50% interest in Leisure Park Venture Limited Partnership which owns a 418-unit retirement community in New Jersey for approximately \$23 million, including the assumption of approximately \$15 million in debt. Crestline currently owns 99% of the partnership.

The unaudited pro forma financial statements present the financial position and the results of operations of Crestline as if the transactions described above were completed. These presentations do not purport to represent what Crestline's results of operations would actually have been if the transactions described above had in fact occurred on such date or at the beginning of such period or to project Crestline's results of operations for any future date or period.

The unaudited pro forma financial statements are based upon certain assumptions, as set forth in the notes to the unaudited pro forma financial statements, that Crestline believes are reasonable under the circumstances and should be read in conjunction with the Consolidated Financial Statements and Notes thereto for HMC Senior Communities, Inc included in the Proxy Statement of Host Marriott and the Prospectus of HMC Merger Corporation.

CRESTLINE CAPITAL CORPORATION
 UNAUDITED PRO FORMA BALANCE SHEET
 AS OF SEPTEMBER 11, 1998
 (IN THOUSANDS, EXCEPT SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
	-----	-----	-----
ASSETS			
Property and equipment, net.....	\$649,528	\$ --	\$649,528
Amounts due from Marriott International.....	4,097	--	4,097
Other assets.....	14,290	85,000(A) 6,482(B)	105,772
Cash and cash equivalents.....	26,504	15,000(B) (6,482)(B)	35,022
	-----	-----	-----
Total assets.....	\$694,419	\$100,000	\$794,419
	=====	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY			
Debt.....	\$213,034	\$ --	\$213,034
Deferred income taxes.....	61,376	--	61,376
Due to Host Marriott Corporation, net.....	12,989	85,000(A)	97,989
Accounts payable and other accrued liabilities.....	13,639	--	13,639
Deferred revenue.....	1,310	--	1,310
	-----	-----	-----
Total liabilities.....	302,348	85,000	387,348
	-----	-----	-----
Stockholder's equity			
Common stock, 100 shares authorized, issued and outstanding (on a pro forma basis 75 million shares of common stock authorized; 21.8 million issued and outstanding)(/1/)	--	--	--
Additional paid-in capital.....	386,627	15,000(B)	401,627
Retained earnings.....	5,444	--	5,444
	-----	-----	-----
Total stockholder's equity.....	392,071	15,000	407,071
	-----	-----	-----
Total liabilities and stockholder's equity.....	\$694,419	\$100,000	\$794,419
	=====	=====	=====

See Notes to Unaudited Pro Forma Financial Statements.

CRESTLINE CAPITAL CORPORATION
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FIRST THREE QUARTERS 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	D DEBT REFINANCING/ REPAYMENTS	E COMMUNITY ACQUISITIONS	F CORPORATE EXPENSES	G HOTEL LEASES	H ADOPTION OF EITF 97-2	PRO FORMA
REVENUES							
Hotels							
Rooms.....	\$ --	\$ --	\$ --	\$ --	\$ --	\$1,785,698	\$1,785,698
Food and beverage.....	--	--	--	--	--	834,913	834,913
Other.....	--	--	--	--	--	157,640	157,640
House profit.....	--	--	--	--	1,087,328	(1,087,328)	--
Total hotels.....	--	--	--	--	1,087,328	1,690,923	2,778,251
Senior living communities							
Routine.....	54,872	--	84	--	--	94,792	149,748
Ancillary.....	2,928	--	1	--	--	13,483	16,412
Total senior living communities.....	57,800	--	85	--	--	108,275	166,160
Total revenues.....	57,800	--	85	--	1,087,328	1,799,198	2,944,411
OPERATING COSTS AND EXPENSES							
Hotels							
Property-level costs and expenses							
Rooms.....	--	--	--	--	--	725,311	725,311
Food and beverage.....	--	--	--	--	--	725,064	725,064
Other department costs and deductions.....	--	--	--	--	--	240,548	240,548
Management fees and other.....	--	--	--	--	195,397	--	195,397
Lease expense.....	--	--	--	--	861,400	--	861,400
Total hotels.....	--	--	--	--	1,056,797	1,690,923	2,747,720
Senior living communities							
Property-level costs and expenses							
Routine.....	--	--	--	--	--	94,792	94,792
Ancillary.....	--	--	--	--	--	13,483	13,483
Other operating costs and expenses.....	29,803	--	49	--	--	--	29,852
Total senior living communities.....	29,803	--	49	--	--	108,275	138,127
Total operating costs and expenses.....	29,803	--	49	--	1,056,797	1,799,198	2,885,847
Operating profit	27,997	--	36	--	30,531	--	58,564
Corporate expenses.....	(2,937)	--	--	(9,938)	--	--	(12,875)
Interest expense.....	(17,560)	4,789	--	--	(3,531)	--	(16,302)
Interest and dividend income.....	1,120	--	6	--	392	--	1,518
Income (loss) before income taxes.....	8,620	4,789	42	(9,938)	27,392	--	30,905
Benefit (provision) for income taxes.....	(3,534)	(1,963)	(18)	4,075	(11,231)	--	(12,671)
Income (loss) before extraordinary item.....	\$ 5,086	\$ 2,826	\$ 24	\$(5,863)	\$ 16,161	\$ --	\$ 18,234
Pro forma earnings per share.....	\$.23(1)						\$.84(2)

See Notes to Unaudited Pro Forma Financial Statements.

CRESTLINE CAPITAL CORPORATION

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

FISCAL YEAR ENDED JANUARY 2, 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	C FORUM ACQUISITION	D DEBT REFINANCING/ REPAYMENT	E COMMUNITY ACQUISITIONS	F CORPORATE EXPENSES	G HOTEL LEASES	H ADOPTION OF EITF 97-2	PRO FORMA
REVENUES								
Hotels								
Room.....	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,373,968	\$2,373,968
Food and beverage....	--	--	--	--	--	--	1,115,307	1,115,307
Other.....	--	--	--	--	--	--	240,329	240,329
House profit.....	--	--	--	--	--	1,425,789	(1,425,789)	--
Total hotels.....	--	--	--	--	--	1,425,789	2,303,815	3,729,604
Senior living communities								
Routine.....	35,473	30,859	--	7,031	--	--	127,135	200,498
Ancillary.....	1,427	1,983	--	188	--	--	18,693	22,291
Total senior living communities.....	36,900	32,842	--	7,219	--	--	145,828	222,789
Total revenues.....	36,900	32,842	--	7,219	--	1,425,789	2,449,643	3,952,393
OPERATING COSTS AND EXPENSES								
Hotels								
Property-level costs and expenses								
Rooms.....	--	--	--	--	--	--	985,891	985,891
Food and beverage....	--	--	--	--	--	--	989,552	989,552
Other department costs and deductions.....	--	--	--	--	--	--	328,372	328,372
Management fees and other.....	--	--	--	--	--	255,389	--	255,389
Lease expense.....	--	--	--	--	--	1,130,700	--	1,130,700
Total hotels.....	--	--	--	--	--	1,386,089	2,303,815	3,689,904
Senior living communities								
Property-level costs and expenses								
Routine.....	--	--	--	--	--	--	127,135	127,135
Ancillary.....	--	--	--	--	--	--	18,693	18,693
Other operating costs and expenses.....	20,929	17,977	--	4,733	--	--	--	43,639
Total senior living communities.....	20,929	17,977	--	4,733	--	--	145,828	189,467
Total operating costs and expenses.....	20,929	17,977	--	4,733	--	1,386,089	2,449,643	3,879,371
Operating profit	15,971	14,865	--	2,486	--	39,700	--	73,022
Corporate expenses....	(2,304)	(5,115)	--	745	(9,826)	--	--	(16,500)
Interest expense.....	(13,396)	(9,630)	7,312	(2,118)	--	(5,100)	--	(22,932)
Interest and dividend income.....	336	598	--	--	--	567	--	1,501
Income (loss) before income taxes.....	607	718	7,312	1,113	(9,826)	35,167	--	35,091
Benefit (provision) for income taxes....	(249)	(294)	(2,998)	(456)	4,029	(14,419)	--	(14,387)
Income (loss) before extraordinary item...	\$ 358	\$ 424	\$ 4,314	\$ 657	\$(5,797)	\$ 20,748	\$ --	\$ 20,704
Pro forma earnings per share.....	\$.02(1)							\$.95(2)

See Notes to Unaudited Pro Forma Financial Statements.

NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

A. Represents the adjustment to increase working capital and record a loan payable to Host of \$85 million to record the transfer of hotel working capital to Crestline related to the leasing of Host's hotels.

B. Represents the following transactions in connection with the Distribution:

- . Host's contribution of \$15 million in incremental cash to Crestline.
- . Acquisition from Host of a 5% limited partner interest in a joint venture with Host that owns an approximate \$130 million note receivable from a consolidated subsidiary of Host.

C. Represents the adjustment to reflect the historical revenues, operating expenses, corporate expenses, interest expense and interest income for the Forum Acquisition as if such acquisition occurred at the beginning of 1997 (actual acquisition date was June 21, 1997).

D. Represents the adjustment to eliminate interest expense on \$133 million of debt repaid during 1998 by Host on behalf of Crestline and treated as a capital contribution by Host.

E. Represents the adjustment to record the historical revenues, operating expenses, corporate expenses and interest income related to the acquisition of one senior living community in 1998 and the acquisition of one senior living community in 1997. The adjustment also includes the elimination of \$745,000 of minority interest expense included in corporate expenses related to the purchase of minority interests in certain consolidated subsidiaries of Crestline in 1997.

F. Represents the adjustment to record additional corporate expenses anticipated to be incurred when Crestline is operated on a stand-alone basis subsequent to the Distribution, net of the asset management contract of \$4.5 million per annum. The adjustment includes the following (in thousands):

	FIRST THREE QUARTERS 1998	FISCAL YEAR 1997
	-----	-----
Payroll costs.....	\$ 8,102	\$ 8,894
Rent and insurance.....	1,185	1,207
Other general and administrative costs.....	3,766	4,225
	-----	-----
	13,053	14,326
Less: asset management fee.....	(3,115)	(4,500)
	-----	-----
Net corporate expense adjustment.....	\$ 9,938	\$ 9,826
	=====	=====

G. Represents the adjustment to record the historical hotel revenues and hotel expenses and pro forma lease expense associated with the leasing of certain hotel properties from Host, interest expense on the \$85 million working capital loan at 6%, and dividend income from the 5% investment in the joint venture with Host that owns a \$130 million note receivable from a consolidated subsidiary of Host.

Rental revenues under the leases are based on the greater of Percentage Rent or Minimum Rent. Total rent in the pro forma statement of operations is calculated based on the historical gross sales of the property and the negotiated rental rates and thresholds by property as if the leases were entered into on the first day of fiscal year 1997. There are generally three sales categories utilized in the rent calculation: rooms, food and beverage and other. For rooms and food and beverage, there are three tiers of rent with two thresholds, while the other category generally has two tiers of rent and one threshold. The percentage rent thresholds are increased annually on the first day of each year after the initial lease year based on a blended increase of the Consumer Price Index ("CPI") and a wage and benefit index. For purposes of the pro formas, 1997 is the assumed initial lease year

and the blended increase applied to the thresholds at January 3, 1998 is assumed to be 3%. Minimum rent is expressed as a fixed dollar amount that increases annually on the first day of each year after the initial lease year at 50% of the CPI increase. Accordingly, the 1998 rent thresholds and minimum rent included in the pro formas were adjusted as of January 3, 1998 for the 1997 increases in the indices. Rental revenues are recognized only for leases to be executed with Host REIT at or prior to completion of the Distribution. The execution of the leases is dependent upon the consummation of the Distribution, which is subject to contingencies that are outside the control of Host, including consent of shareholders, lenders, debt holders, partners and ground lessors of Host. Host believes that negotiations with third parties to complete the Distribution will not result in any material change to the leases. The table below details gross sales, minimum rent and total rent for all full-service properties to be leased and summarized amounts for the limited-service properties to be subleased:

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998		
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT
(IN MILLIONS)						
Grand Hotel Resort and Golf Club.....	\$23.4	\$2.8	\$4.2	\$18.0	\$2.0	\$3.7
Scottsdale Suites.....	11.9	3.0	5.0	8.2	2.1	3.4
The Ritz-Carlton, Phoenix.....	23.3	4.6	7.2	17.3	3.2	5.5
Coronado Island Resort.....	22.0	2.1	2.1	16.2	1.5	3.6
Costa Mesa Suites.....	9.7	1.9	3.3	7.2	1.3	2.3
Desert Springs Resort and Spa.....	103.3	21.3	30.3	80.3	15.0	22.6
Manhattan Beach.....	16.3	2.4	4.8	12.2	1.7	3.6
Marina Beach.....	21.1	4.6	7.1	16.9	3.2	6.2
Newport Beach.....	33.5	5.5	8.7	24.0	3.9	6.8
Newport Beach Suites.....	11.0	2.6	4.1	8.0	1.8	3.0
Ontario Airport.....	12.1	1.8	3.4	8.3	1.3	2.2
San Diego Marriott Hotel and Marina....	103.3	38.0	39.6	78.6	26.7	31.1
San Francisco Airport.....	43.8	8.2	13.2	32.2	5.8	9.5
San Francisco Fisherman's Wharf.....	17.8	4.0	6.4	12.1	2.8	4.3
San Francisco Moscone Center.....	120.2	20.7	37.9	90.5	14.6	28.5
San Ramon.....	19.7	4.4	5.1	14.4	3.1	4.0
Santa Clara.....	47.3	7.8	16.5	37.2	5.5	13.5
The Ritz-Carlton, Marina del Rey.....	32.4	5.5	10.8	23.4	3.9	7.9
The Ritz-Carlton, San Francisco.....	50.1	9.6	14.7	34.2	6.7	10.3
Torrance.....	20.5	2.3	3.5	15.0	1.6	5.1
Denver Southeast.....	21.5	3.0	6.2	14.9	2.1	4.1
Denver Tech Center.....	26.8	5.1	8.3	20.1	3.6	6.0
Denver West.....	13.7	1.8	4.0	9.6	1.2	2.7
Marriott's Mountain Resort at Vail.....	17.6	3.0	5.1	14.1	2.1	4.5
Hartford/Farmington.....	18.4	3.5	4.7	13.4	2.4	3.5
Hartford/Rocky Hill.....	11.6	1.5	2.7	8.5	1.1	2.0
Fort Lauderdale Marina.....	28.5	4.3	7.9	20.4	3.0	5.7
Jacksonville.....	11.8	1.8	3.6	8.0	1.2	2.4
Miami Airport.....	29.7	3.9	8.4	21.6	2.8	6.1
Orlando World Center.....	128.2	23.5	39.6	98.7	16.5	30.4
Palm Beach Gardens.....	11.8	1.9	3.7	8.5	1.4	3.0
Singer Island (Holiday Inn).....	6.6	1.4	2.5	5.2	1.0	2.1
Tampa Airport.....	17.1	1.6	3.5	13.1	1.1	2.7
Tampa Westshore.....	15.0	1.8	3.6	10.8	1.3	2.6
The Ritz-Carlton, Naples.....	66.4	18.1	23.3	53.1	12.7	18.0
Atlanta Marriott Marquis.....	85.4	21.3	33.3	58.6	15.0	25.6
Atlanta Midtown Suites.....	10.5	1.8	3.5	7.8	1.3	2.6
Atlanta Norcross.....	7.6	1.0	1.7	5.6	0.7	1.2
Atlanta Northwest.....	14.9	2.7	4.3	11.3	1.9	3.3
Atlanta Perimeter.....	16.6	2.5	4.5	12.6	1.7	3.5
JW Marriott Hotel at Lenox.....	24.8	3.7	6.8	17.7	2.6	5.0
The Ritz-Carlton, Atlanta.....	30.2	5.8	8.8	21.7	4.1	6.8

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998		
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT
	(IN MILLIONS)					
The Ritz-Carlton, Buckhead..	\$ 49.3	\$ 13.1	\$ 16.3	\$ 35.8	\$ 9.2	\$ 11.7
Chicago/Deerfield Suites....	10.2	1.8	3.1	7.4	1.3	2.3
Chicago/Downers Grove Suites.....	9.0	1.8	2.9	6.7	1.3	2.2
Chicago/Downtown Courtyard..	16.3	3.1	4.9	12.2	2.2	3.9
Chicago O'Hare.....	40.0	5.5	11.5	28.8	3.9	8.2
South Bend.....	9.9	1.1	2.1	7.0	0.8	1.5
New Orleans	66.4	17.5	21.8	47.6	12.3	15.8
Bethesda.....	23.2	3.2	5.6	17.3	2.2	4.1
Gaithersburg/Washingtonian Center.....	13.2	2.4	3.8	9.7	1.7	2.8
Boston/Newton.....	27.4	4.8	7.8	19.1	3.4	5.5
Detroit Romulus.....	8.8	1.1	1.8	6.6	0.8	1.4
The Ritz-Carlton, Dearborn..	25.7	3.6	5.5	17.7	2.5	4.0
Minneapolis/Bloomington....	20.2	3.3	6.5	13.8	2.3	4.7
Minneapolis City Center....	27.5	3.7	7.5	20.4	2.4	5.2
Kansas City Airport.....	14.3	1.7	3.7	9.9	1.2	2.5
Nashua.....	7.5	0.8	1.3	5.3	0.5	0.9
Hanover.....	22.5	4.7	6.6	15.1	3.3	4.3
Newark Airport.....	39.4	6.5	11.8	29.2	4.6	8.6
Park Ridge.....	16.0	2.5	4.0	11.9	1.7	4.2
Saddle Brook.....	10.7	1.3	2.1	7.8	0.9	1.7
New York Marriott Financial Center.....	39.6	7.7	13.2	29.1	5.4	10.1
New York Marriott Marquis... Marriott World Trade Center.....	210.3	40.0	60.8	155.4	29.7	47.6
Charlotte Executive Park....	65.4	12.2	19.4	49.1	8.6	14.9
Raleigh Crabtree Valley....	14.0	2.3	3.7	9.8	1.6	2.6
Oklahoma City.....	14.9	2.4	3.9	10.9	1.7	2.8
Oklahoma City Waterford....	15.6	2.0	3.8	10.4	1.4	2.4
Portland.....	9.1	1.5	2.7	6.1	1.0	1.7
Philadelphia (Convention Center).....	26.4	4.1	7.5	17.6	2.9	4.8
Philadelphia Airport.....	80.7	14.2	25.0	58.2	10.0	17.8
Pittsburgh City Center.....	25.0	4.1	7.6	18.6	2.9	5.6
Memphis.....	16.4	1.9	3.0	11.1	1.3	2.2
Dallas/Fort Worth.....	10.6	1.5	3.2	5.7	1.0	1.8
Dallas Quorum.....	28.9	5.9	9.3	21.9	4.1	7.0
El Paso.....	25.7	4.2	8.2	18.3	3.0	5.8
Houston Airport	11.6	0.9	2.3	7.8	0.6	1.4
JW Marriott Houston.....	21.6	2.8	6.0	16.9	2.0	4.6
Plaza San Antonio.....	27.2	5.0	8.0	20.1	3.5	5.9
San Antonio Rivercenter....	13.8	2.9	4.6	9.7	2.0	3.3
San Antonio Riverwalk.....	68.9	17.5	24.5	49.3	12.3	17.8
Salt Lake City.....	29.3	6.1	10.3	21.7	4.3	7.6
Dulles Airport.....	28.5	5.6	9.5	21.1	3.9	7.2
Key Bridge.....	14.6	1.8	4.0	10.9	1.2	3.0
Norfolk Waterside.....	29.4	5.6	10.2	21.2	3.9	7.4
Pentagon City Residence Inn.....	18.1	3.3	5.4	12.8	2.4	3.8
The Ritz-Carlton, Tysons Corner.....	11.7	3.5	5.5	8.7	2.5	4.2
Washington Dulles Suites....	34.4	5.9	9.8	24.9	4.1	7.3
Westfields.....	10.3	2.5	4.0	7.8	1.8	3.0
Williamsburg.....	28.0	4.7	7.4	20.3	3.3	5.4
Washington Metro Center....	12.6	1.8	2.8	9.3	1.3	2.1
Calgary.....	25.2	4.5	7.3	19.2	3.2	5.3
Toronto Airport.....	13.4	1.7	1.7	9.8	1.2	2.3
Toronto Eaton Centre.....	17.1	2.9	5.6	13.0	2.0	4.2
Toronto Delta Meadowvale....	21.1	6.1	7.1	16.0	4.3	5.6
Fairview Park.....	16.1	2.6	4.9	10.6	1.9	3.1
	22.5	3.9	7.3	16.3	2.8	5.2

PROPERTY	FISCAL YEAR 1997			FIRST THREE QUARTERS 1998		
	GROSS SALES	MINIMUM RENT	TOTAL RENT	GROSS SALES	MINIMUM RENT	TOTAL RENT
(IN MILLIONS)						
Dayton.....	\$ 18.2	\$ 3.2	\$ 6.0	\$ 13.4	\$ 2.3	\$ 4.3
Research Triangle Park.....	9.1	1.4	2.9	6.8	1.0	2.3
Detroit Marriott Southfield.....	8.8	1.2	2.1	6.9	0.9	1.7
Detroit Marriott Livonia....	10.0	1.4	2.6	7.4	1.0	1.9
Fullerton.....	6.8	1.2	1.8	5.0	0.8	1.3
Marriott O'Hare Suites.....	14.4	2.7	4.9	10.8	1.9	4.0
Albuquerque.....	16.4	3.6	3.6	11.1	2.5	2.6
Greensboro-High Point.....	13.6	3.3	3.3	10.2	2.3	2.4
Houston Medical Center.....	16.5	4.0	4.0	12.2	2.8	2.9
Miami Biscayne Bay.....	26.8	6.5	6.6	20.5	4.5	5.1
Marriott Mountain Shadows Resort.....	24.1	4.4	4.5	16.9	3.1	3.1
Seattle SeaTac Airport.....	23.1	6.7	6.7	17.5	4.7	5.1
Four Seasons, Atlanta.....	15.6	5.8	5.9	14.2	4.1	4.5
Four Seasons, Philadelphia..	41.1	7.9	12.4	30.6	5.6	10.1
Grand Hyatt, Atlanta.....	25.3	10.0	10.0	22.6	7.0	8.2
Hyatt Regency, Burlingame...	47.9	8.8	17.6	39.5	6.2	15.1
Hyatt Regency, Cambridge....	32.4	6.7	11.9	26.8	4.7	10.4
Hyatt Regency, Reston.....	30.5	6.5	11.3	24.2	4.5	9.2
Swissotel, Atlanta.....	22.2	5.0	6.3	17.2	3.5	5.8
Swissotel, Boston.....	26.8	6.4	8.5	20.5	4.5	6.9
Swissotel, Chicago.....	38.1	10.9	15.1	28.9	7.7	12.0
The Drake (Swissotel), New York.....	38.8	11.6	13.6	34.2	8.2	13.4
The Ritz-Carlton, Amelia Island.....	45.7	10.3	13.4	37.4	7.2	11.1
The Ritz-Carlton, Boston....	40.1	6.9	10.5	31.4	4.8	8.8
Total Full-service Properties.....	3,465.1	683.6	1,053.8	2,574.3	481.8	805.3
Total Courtyard Properties(3).....	212.0	50.6	57.3	159.2	35.0	42.2
Total Residence Inns(3).....	69.9	17.2	19.6	50.6	12.0	13.9
Total.....	\$3,747.0	\$751.4	\$1,130.7	\$2,784.1	\$528.8	\$861.4

H. Represents the adjustment to reflect Crestline's anticipated adoption of EITF 97-2 in the fourth quarter of 1998 by recording property-level sales and operating expenses. The adjustment has no impact on operating profit or net income.

(1) On a pro forma basis as of September 11, 1998, Crestline's had 75 million shares of common stock, \$.01 par value authorized with 21.8 million shares issued and outstanding. In addition, on a pro forma basis, 10 million shares of preferred stock, \$.01 par value are authorized with none issued or outstanding.

(2) Reflects the pro forma earnings per share based on 21.8 million weighted average shares outstanding subsequent to the Distribution. Pro forma weighted average shares are based on Host's weighted average shares outstanding, adjusted for a one-for-ten share distribution, and the issuance of 1.4 million shares to the Blackstone Entities.

(3) The Courtyard and Residence Inn properties will be subleased by subsidiaries of Crestline from subsidiaries of Host Marriott under sublease agreements. The owners of these properties have not yet consented to the subleases but have agreed to waive any defaults under the related leases until February 17, 1999 to provide Host Marriott with additional time to obtain such consents (which could require modifications in the terms of the subleases or structural or other changes related thereto.) The Company expects that such consents will be obtained during this period and has agreed to cooperate in connection therewith, but if such consents are not obtained, the subleases could be terminated without any payment to Crestline. This change would have the effect of reducing Crestline's revenues by \$210 million and \$282 million for the First Three Quarters 1998 and fiscal year 1997, respectively, and reducing Crestline's net income by approximately \$4 million for each periods. The Company does not believe that any changes that might be required to the subleases would result in material changes to the lease terms.

EXHIBIT INDEX

Exhibit No. -----	Exhibit Description -----	Page No. -----
99.1	"Federal Income Tax Considerations" relating to an investment in securities of new Host Marriott Corporation.	48

FEDERAL INCOME TAX CONSIDERATIONS

INTRODUCTION

The following discussion summarizes the federal income tax considerations reasonably anticipated to be material to a stockholder in connection with the purchase, ownership and disposition of common stock. The applicable prospectus supplement will contain information about additional federal income tax considerations, if any, relating to particular offerings. The following discussion is intended to address only those federal income tax consequences that are generally relevant to all stockholders. Accordingly, it does not discuss all aspects of federal income taxation that might be relevant to a specific stockholder in light of his particular investment or tax circumstances. Therefore, it is imperative that a stockholder review the following discussion and consult with his own tax advisors to determine the interaction of his individual tax situation with the tax considerations associated with the purchase, ownership and disposition of common stock.

The following discussion provides general information only, is not exhaustive of all possible tax considerations and is not tax advice. For example, this summary does not give a detailed description of any state, local or foreign tax considerations. In addition, the discussion does not purport to deal with all aspects of taxation that may be relevant to a stockholder subject to special treatment under the federal income tax laws, including, without limitation, insurance companies, financial institutions or broker-dealers, tax-exempt organizations or foreign corporations and persons who are not citizens or residents of the United States.

The information in this section is based on the Internal Revenue Code, current, temporary and proposed regulations thereunder, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the IRS, including its practices and policies as endorsed in private letter rulings,

which are not binding on the IRS, and court decisions, all as of the date hereof. No assurance can be given that future legislation, regulations, administrative interpretations and court decisions will not significantly change the current law or adversely affect existing interpretations of current law. Any such change could apply retroactively to transactions preceding the date of the change. No assurance can be provided that the statements set forth herein will not be challenged by the IRS or will be sustained by a court if so challenged.

The specific tax attributes of a particular stockholder could have a material impact on the tax considerations associated with the purchase, ownership and disposition of common stock. Therefore, it is essential that each prospective stockholder consult with his own tax advisors with regard to the application of the federal income tax laws to such stockholder's personal tax situation, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

FEDERAL INCOME TAXATION OF HOST MARRIOTT

General. Host Marriott plans to make an election to be taxed as a REIT under Sections 856 through 859 of the Internal Revenue Code, effective for the taxable year beginning January 1, 1999. Host Marriott intends that, commencing with such year, it will be organized and will operate in such a manner as to qualify for taxation as a REIT, but no assurance can be given that it in fact will qualify or remain qualified as a REIT. Host Marriott believes that it will be organized in conformity with the requirements for qualification as a REIT, and, beginning in 1999, its proposed method of operation will enable it to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. It must be emphasized that this belief is based upon factual matters relating to the organization and operation of Host Marriott and its subsidiaries, Host Marriott, L.P. and its subsidiaries, the non-controlled subsidiaries, the Host Employee/Charitable Trust and Crestline and its subsidiaries, including the economic and other terms of each lease and the expectations of Host Marriott and the lessees with respect thereto.

The sections of the Internal Revenue Code and the corresponding regulations that govern the federal income tax treatment of a REIT and its stockholders are highly technical and complex. The following discussion is a summary of the material aspects of these rules, which is qualified in its entirety by the applicable Internal Revenue Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

If Host Marriott qualifies for taxation as a REIT, it generally will not be subject to federal corporate income taxes on its net income that it currently distributes to its stockholders. This treatment substantially eliminates the "double taxation" at the corporate and stockholder levels that generally results from an investment in a regular corporation. However, Host Marriott will be subject to federal income tax as follows:

1. Host Marriott will be taxed at regular corporate rates on any undistributed "REIT taxable income," including undistributed net capital gains; provided, however, that properly designated undistributed capital gains will effectively avoid taxation at the stockholder level. A REIT's "REIT taxable income" is the otherwise taxable income of the REIT subject to certain adjustments, including a deduction for dividends paid.

2. Under certain circumstances, Host Marriott may be subject to the "alternative minimum tax" on its items of tax preference.

3. If Host Marriott has net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business or other nonqualifying income from foreclosure property, it will be subject to tax at the highest corporate rate on such income.

4. Host Marriott's net income from "prohibited transactions" will be subject to a 100% tax. In general, "prohibited transactions" are certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property.

5. If Host Marriott fails to satisfy the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintains its qualification as a REIT because certain other requirements are met, it will be subject to a tax equal to (1) the gross income attributable to the greater of the amount by which Host Marriott fails the 75% or 95% test multiplied by (2) a fraction intended to reflect its profitability.

6. If Host Marriott fails to distribute during each calendar year at least the sum of (1) 85% of its REIT ordinary income for such year, (2) 95% of its REIT capital gain net income for such year and (3) any undistributed taxable income from prior periods, Host Marriott will be subject to a 4% excise tax on the excess of such required distribution over the sum of amounts actually distributed and amounts retained but with respect to which federal income tax was paid.

7. If Host Marriott acquires any asset from a taxable "C" corporation in a transaction in which the basis of the asset in the hands of Host Marriott is determined by reference to the basis of the asset in the hands of the "C" corporation, and Host Marriott recognizes gain on the disposition of such asset during the ten-year period beginning on the date on which such asset was acquired by Host Marriott (the "Recognition Period"), then, to the extent of the asset's "built-in gain," such gain will be subject to tax at the highest regular corporate rate applicable. Built-in gain is the excess of the fair market value of an asset over Host Marriott's adjusted basis in the asset, determined when Host Marriott acquired the asset.

Host Marriott owns an indirect interest in appreciated assets that its predecessors held before the REIT conversion. Such appreciated assets have a "carryover" basis and thus have built-in gain with respect to Host Marriott. If such appreciated property is sold within the ten-year period following the REIT conversion, Host Marriott generally will be subject to regular corporate tax on that gain to the extent of the built-in gain in that property at the time of the REIT conversion. The total amount of gain on which Host Marriott can be taxed is limited to the excess of the aggregate fair market value of its assets on January 1, 1999 over the adjusted tax bases of those assets at that time. This tax could be very material, however, and may result in the Host Marriott, L.P. and Host Marriott seeking to avoid a taxable disposition of any significant asset owned by

Host Marriott's predecessors at the time of the REIT conversion for the ten taxable years following the REIT conversion even though such disposition might otherwise be in the best interests of Host Marriott.

Notwithstanding Host Marriott's status as a REIT, it is likely that substantial deferred liabilities of its predecessors will be recognized over the next ten years. Deferred liabilities include, but are not limited to, tax liabilities attributable to built-in gain assets and deferred tax liabilities attributable to taxable income for which neither Host Marriott nor Host Marriott, L.P. will receive corresponding cash. In addition, the IRS could assert substantial additional liabilities for taxes against Host Marriott's predecessors for taxable years prior to the time Host Marriott qualifies as a REIT. Under the terms of the REIT conversion and the partnership agreement of Host Marriott, L.P., Host Marriott, L.P. will be responsible for paying, or reimbursing Host Marriott for the payment of all such tax liabilities as well as any other liabilities, including contingent liabilities and liabilities attributable to litigation that Host Marriott may incur, whether such liabilities are incurred by reason of activities prior to the REIT conversion or activities subsequent thereto.

Host Marriott, L.P. will pay, or reimburse Host Marriott for the payment of all taxes incurred by Host Marriott, except for taxes imposed on Host Marriott by reason of its failure to qualify as a REIT or to distribute to its stockholders an amount equal to its "REIT taxable income," including net capital gains. This obligation by Host Marriott, L.P. includes any federal corporate income tax imposed on built-in gain.

Requirements for Qualification. The Internal Revenue Code defines a REIT as a corporation, trust or association

- (1) which is managed by one or more directors or trustees;
- (2) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;
- (3) which would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;
- (4) which is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities); and
- (7) which meets certain other tests, described below, regarding the nature of its income and assets.

Conditions (1) to (4), inclusive, must be met during the entire taxable year and condition (5) must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Conditions (5) and (6) will not apply until after the first taxable year for which Host Marriott makes the election to be taxed as a REIT. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a "look-through" exception in the case of condition (6). Compliance with condition (5) shall be determined by disregarding the ownership of Host Marriott shares by any person(s) who: (a) acquired such shares as a gift or bequest or pursuant to a legal separation or divorce; (b) is the estate of any person making such transfer to the estate; or (c) is a company established exclusively for the benefit of (or wholly owned by) either the person making such transfer or a person described in (a) or (b).

In connection with condition (6), Host Marriott is required to send annual letters to its stockholders requesting information regarding the actual ownership of its shares. If Host Marriott complies with this requirement, and it does not know, or exercising reasonable diligence would not have known, whether it failed to meet condition (6), then it will be treated as having met condition (6). If Host Marriott fails to send such annual letters, it will be required to pay either a \$25,000 penalty or, if the failure is intentional, a \$50,000

penalty. The IRS may require Host Marriott, under those circumstances, to take further action to ascertain actual ownership of its shares, and failure to comply with such an additional requirement would result in an additional \$25,000 (or \$50,000) penalty. No penalty would be assessed in the first instance, however, if the failure to send the letters is due to reasonable cause and not to willful neglect.

Host Marriott believes that it meets and will continue to meet conditions (1) through (4). In addition, Host Marriott believes that it will have outstanding (commencing with its first taxable year as a REIT) common stock with sufficient diversity of ownership to allow it to satisfy conditions (5) and (6). With respect to condition (6), Host Marriott intends to comply with the requirement that it send annual letters to its stockholders requesting information regarding the actual ownership of its shares. In addition, the Host Marriott charter contains an ownership limit, which is intended to assist Host Marriott in continuing to satisfy the share ownership requirements described in (5) and (6) above. The ownership limit, together with compliance with the annual stockholder letter requirement described above, however, may not ensure that Host Marriott will, in all cases, be able to satisfy the share ownership requirements described above. If Host Marriott fails to satisfy such share ownership requirements, Host Marriott will not qualify as a REIT. See "-- Failure of Host Marriott to Qualify as a REIT."

A corporation may not elect to become a REIT unless its taxable year is the calendar year. Although Host Marriott previously had a 52-53 week year ending on the Friday closest to January 1, it adopted a calendar year taxable year in connection with the REIT conversion.

Distribution of "Earnings and Profits" Attributable to "C" Corporation Taxable Years. A REIT cannot have at the end of any taxable year any undistributed earnings and profits ("E&P") that are attributable to a "C" corporation taxable year, which includes all undistributed E&P of Host Marriott's predecessors. Accordingly, Host Marriott has until December 31, 1999 to distribute such E&P. In connection with the REIT conversion, Host Marriott declared dividends intended to eliminate the substantial majority, if not all, of such E&P. To the extent, however, that any such E&P remains (the "Acquired Earnings"), Host Marriott is required to distribute such E&P prior to the end of 1999. Failure to do so would result in disqualification of Host Marriott as a REIT at least for 1999. If Host Marriott should be so disqualified for 1999, subject to the satisfaction by Host Marriott of certain "deficiency dividend" procedures described below in "--Annual Distribution Requirements Applicable to REITs" and assuming that Host Marriott otherwise satisfies the requirements for qualification as a REIT, Host Marriott should qualify as a REIT for 2000 and thereafter. Host Marriott believes that the dividends it has already declared will be sufficient to distribute all of the Acquired Earnings as of December 31, 1999. However, there are substantial uncertainties relating to both the estimate of the Acquired Earnings, as described below, and the value of noncash consideration that Host Marriott has distributed or will distribute. Accordingly, there can be no assurance this requirement will be met.

The estimated amount of the Acquired Earnings will be based on the allocated consolidated E&P of Host Marriott's predecessors accumulated from 1929 through and including 1998 and taking into account the allocation, as a matter of law, of 81% of Host Marriott's predecessors' accumulated E&P to Marriott International on October 8, 1993 in connection with the spin-off of Marriott International. The estimate was determined based on the available tax returns and certain assumptions with respect to both such returns and other matters. The calculation of the Acquired Earnings, however, depends upon a number of factual and legal interpretations related to the activities and operations of Host Marriott's predecessors during their entire corporate existence and is subject to review and challenge by the IRS. There can be no assurance that the IRS will not examine the tax returns of Host Marriott's predecessors and propose adjustments to increase their taxable income. The impact of such proposed adjustments, if any, may be material. If the IRS examines Host Marriott's calculation of its E&P, the IRS can consider all taxable years of Host Marriott's predecessors as open for review for purposes of such determination.

Qualified REIT Subsidiary. If a REIT owns a corporate subsidiary that is a "qualified REIT subsidiary," that subsidiary will be disregarded for federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of the subsidiary will be treated as assets, liabilities and items of the REIT itself. Generally, a qualified REIT subsidiary is a corporation all of the capital stock of which is owned by one REIT. Host Marriott holds several qualified REIT subsidiaries that hold de minimis indirect interests in the partnerships that own hotels. These entities will not be subject to federal corporate income taxation, although they may be subject to state and local taxation in certain jurisdictions.

Ownership of Partnership Interests by a REIT. A REIT which is a partner in a partnership will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership shall retain the same character in the hands of the REIT for purposes of Section 856 of the Internal Revenue Code, including satisfying the gross income tests and the asset tests. Thus, Host Marriott's proportionate share of the assets and items of income of Host Marriott, L.P., including Host Marriott, L.P.'s share of such items of any subsidiaries that are partnerships or LLCs, are treated as assets and items of income of Host Marriott for purposes of applying the requirements described herein. A summary of the rules governing the federal income taxation of partnerships and their partners is provided below in "--Tax Aspects of Ownership of Interests in Host Marriott, L.P." As the sole general partner of Host Marriott, L.P., Host Marriott has direct control over Host Marriott, L.P. and indirect control over the subsidiaries in which Host Marriott, L.P. or a subsidiary has a controlling interest. Host Marriott intends to operate these entities consistent with the requirements for qualification of Host Marriott as a REIT.

Income Tests Applicable to REITs. In order to maintain qualification as a REIT, Host Marriott must satisfy two gross income requirements. First, at least 75% of Host Marriott's gross income, excluding gross income from "prohibited transactions," for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including "rents from real property" and, in certain circumstances, interest, or from certain types of temporary investments. Second, at least 95% of Host Marriott's gross income, excluding gross income from "prohibited transactions," for each taxable year must be derived from any combination of such real property investments, dividends, interest, certain hedging instruments and gain from the sale or disposition of stock or securities, including certain hedging instruments.

Rents paid pursuant to Host Marriott's leases, together with dividends and interest received from the non-controlled subsidiaries, will constitute substantially all of the gross income of Host Marriott. Several conditions must be satisfied in order for rents received by Host Marriott, including the rents received pursuant to the leases, to qualify as "rents from real property." First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, rents received from a tenant will not qualify as "rents from real property" if Host Marriott, or an actual or constructive owner of 10% or more of Host Marriott, actually or constructively owns 10% or more of such tenant (a "Related Party Tenant"). Third, 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, then the portion of rent attributable to such personal property will not qualify as "rents from real property."

Finally, if Host Marriott operates or manages a property or furnishes or renders services to the tenants at the property other than through an independent contractor from whom Host Marriott derives no revenue, excluding for these purposes services "usually or customarily rendered" in connection with the rental of real property and not otherwise considered "rendered to the occupant," and the income derived from such services (the "Impermissible Service Income") exceeds one percent of the total amount received by Host Marriott with respect to the property, then no amount received by Host Marriott with respect to the property will qualify as "rents from real property." For these purposes, Impermissible Service Income cannot be less than 150% of the

cost of providing the service. If the Impermissible Service Income is one percent or less of the total amount received by the REIT with respect to the property, then only the Impermissible Service Income will not qualify as "rents from real property." To the extent that services other than those customarily furnished or rendered in connection with the rental of real property are rendered to the tenants of the property by an independent contractor, the cost of the services must be borne by the independent contractor.

Host Marriott, L.P. and each subsidiary that owns hotels have entered into leases with subsidiaries of Crestline, pursuant to which the hotels are leased for a term ranging generally from seven to ten years commencing on January 1, 1999. Each lease provides for thirteen payments per annum of a specified base rent plus, to the extent that it exceeds the base rent, additional rent which, in each case other than the Harbor Beach Resort lease, is calculated based upon the gross sales of the hotels subject to the lease, plus certain other amounts.

Neither Host Marriott nor Host Marriott, L.P. intends to do any of the following:

- . provide any services to the lessees with respect to the operation of the hotels;
- . charge rent for any hotel that would be considered to be based in whole or in part on the income or profits of any person, except for the Harbor Beach Resort, where the lease provides for rent based upon net profits, but which Host Marriott believes will not jeopardize its status as a REIT;
- . rent any hotel to a Related Party Tenant unless the Board of Directors determines in its discretion that the rent received from such Related Party Tenant is not material and will not jeopardize Host Marriott's status as a REIT; or
- . derive rental income attributable to personal property other than personal property leased in connection with the lease of real property, the amount of which is less than 15% of the total rent received under the lease, unless the Board of Directors determines in its discretion that the amount of such rent attributable to personal property is not material and will not jeopardize Host Marriott's status as a REIT.

In order for the rent paid pursuant to the leases to constitute "rents from real property," the lessees must not be regarded as Related Party Tenants, and the leases must be respected as true leases for federal income tax purposes. Accordingly the lessee cannot be treated as service contracts, joint ventures or some other type of arrangement. A lessee will be regarded as a Related Party Tenant only if Host Marriott and/or one or more actual or constructive owners of 10% or more of Host Marriott, actually or constructively, own 10% or more of such lessee through an ownership interest in Crestline. In order to help preclude the lessees from being regarded as Related Party Tenants, the following organizational documents contain the following ownership limits:

- . the articles of incorporation of Crestline expressly prohibit any person or persons acting as a group, including Host Marriott and/or any 10% or greater stockholder of Host Marriott, from owning more than 9.8% of the lesser of the number or value of the shares of capital stock of Crestline;
- . the Host Marriott charter expressly prohibits any person or persons acting as a group or entity from owning, actually and/or constructively, more than 9.8% of the lesser of the number or value of capital stock of Host Marriott (subject to a limited exception for a holder of shares of capital stock of Host Marriott solely by reason of the Merger in excess of the ownership limit so long as the holder thereof did not own, directly or by attribution under the Internal Revenue Code, more than 9.9% in value of the outstanding shares of capital stock of Host Marriott) or any other class or series of shares of Host Marriott; and
- . Host Marriott, L.P.'s partnership agreement expressly prohibits any person, or persons acting as a group, or entity, other than Host Marriott and an affiliate of the The Blackstone Group and a series of related funds controlled by Blackstone Real Estate Partners (the "Blackstone Entities"), from owning more than 4.9% by value of any class of interests in Host Marriott, L.P. Each of these prohibitions

contains self-executing enforcement mechanisms. Assuming that these prohibitions are enforced at all times and no waivers thereto are granted, the lessees should not be regarded as Related Party Tenants.

There can be no assurance, however, that these ownership restrictions will be enforced in accordance with their terms in all circumstances or otherwise will ensure that the lessees will not be regarded as Related Party Tenants.

The determination of whether the leases are true leases depends upon an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following:

- . the intent of the parties;
- . the form of the agreement;
- . the degree of control over the property that is retained by the property owner (e.g., whether the lessee has substantial control over the operation of the property or whether the lessee was required simply to use its best efforts to perform its obligations under the agreement); and
- . the extent to which the property owner retains the risk of loss with respect to the property (e.g., whether the lessee bears the risk of increases in operating expenses or the risk of damage to the property) or the potential for economic gain (e.g., appreciation) with respect to the property.

In addition, Section 7701(e) of the Internal Revenue Code provides that a contract that purports to be a service contract or a partnership agreement is treated instead as a lease of property if the contract is properly treated as such, taking into account all relevant factors. Since the determination of whether a service contract should be treated as a lease is inherently factual, the presence or absence of any single factor may not be dispositive in every case. Some of the relevant factors include whether:

- . the service recipient is in physical possession of the property;
- . the service recipient controls the property;
- . the service recipient has a significant economic or possessory interest in the property (e.g., the property's use is likely to be dedicated to the service recipient for a substantial portion of the useful life of the property, the recipient shares the risk that the property will decline in value, the recipient shares in any appreciation in the value of the property, the recipient shares in savings in the property's operating costs or the recipient bears the risk of damage to or loss of the property);
- . the service provider does not bear any risk of substantially diminished receipts or substantially increased expenditures if there is nonperformance under the contract;
- . the service provider does not use the property concurrently to provide significant services to entities unrelated to the service recipient; and
- . the total contract price does not substantially exceed the rental value of the property for the contract period.

Host Marriott's leases have been structured with the intent to qualify as true leases for federal income tax purposes. For example, with respect to each lease:

- . Host Marriott, L.P. or the applicable subsidiary or other lessor entity and the lessee intend for their relationship to be that of a lessor and lessee and such relationship is documented by a lease agreement,
- . the lessee has the right to exclusive possession and use and quiet enjoyment of the hotels covered by the lease during the term of the lease,
- . the lessee bears the cost of, and will be responsible for, day-to-day maintenance and repair of the hotels other than the cost of certain capital expenditures, and will dictate through the hotel managers, who work for the lessees during the terms of the leases, how the hotels are operated and maintained,

- . the lessee bears all of the costs and expenses of operating the hotels, including the cost of any inventory used in their operation, during the term of the lease, other than the cost of certain furniture, fixtures and equipment, and certain capital expenditures,
- . the lessee benefits from any savings and bears the burdens of any increases in the costs of operating the hotels during the term of the lease,
- . in the event of damage or destruction to a hotel, the lessee is at economic risk because it will bear the economic burden of the loss in income from operation of the hotels subject to the right, in certain circumstances, to terminate the lease if the lessor does not restore the hotel to its prior condition,
- . the lessee has indemnified Host Marriott, L.P. or the applicable subsidiary against all liabilities imposed on Host Marriott, L.P. or the applicable subsidiary during the term of the lease by reason of (A) injury to persons or damage to property occurring at the hotels or (B) the lessee's use, management, maintenance or repair of the hotels,
- . the lessee is obligated to pay, at a minimum, substantial base rent for the period of use of the hotels under the lease,
- . the lessee stands to incur substantial losses or reap substantial gains depending on how successfully it, through the hotel managers, who work for the lessees during the terms of the leases, operates the hotels,
- . Host Marriott and Host Marriott, L.P. believe that each lessee reasonably expects to derive a meaningful profit, after expenses and taking into account the risks associated with the lease, from the operation of the hotels during the term of its leases, and
- . upon termination of each lease, the applicable hotel is expected to have a remaining useful life equal to at least 20% of its expected useful life on the date of the consummation of the REIT conversion, and a fair market value equal to at least 20% of its fair market value on the date of the consummation of the REIT conversion.

If, however, the leases were recharacterized as service contracts or partnership agreements, rather than true leases, or disregarded altogether for tax purposes, all or part of the payments that Host Marriott, L.P. receives from the lessees would not be considered rent or would not otherwise satisfy the various requirements for qualification as "rents from real property." In that case, Host Marriott very likely would not be able to satisfy either the 75% or 95% gross income tests and, as a result, would lose its REIT status.

As indicated above, "rents from real property" must not be based in whole or in part on the income or profits of any person. Payments made pursuant to Host Marriott's leases should qualify as "rents from real property" since they are based on either fixed dollar amounts or on specified percentages of gross sales fixed at the time the leases were entered into, except for the Harbor Beach Resort lease, which provides for rents based upon net profits. The foregoing assumes that the leases are not renegotiated during their term in a manner that has the effect of basing either the percentage rent or base rent on income or profits. The foregoing also assumes that the leases are not in reality used as a means of basing rent on income or profits. More generally, the rent payable under the leases will not qualify as "rents from real property" if, considering the leases and all the surrounding circumstances, the arrangement does not conform with normal business practice. Host Marriott intends that it will not renegotiate the percentages used to determine the percentage rent during the terms of the leases in a manner that has the effect of basing rent on income or profits. In addition, Host Marriott believes that the rental provisions and other terms of the leases conform with normal business practice and, other than the Harbor Beach Resort lease, were not intended to be used as a means of basing rent on income or profits. Furthermore, Host Marriott intends that, with respect to other properties that it acquires in the future, it will not charge rent for any property that is based in whole or in part on the income or profits of any person, except by reason of being based on a fixed percentage of gross revenues, as described above.

Host Marriott leases certain items of personal property to the lessees in connection with its leases. Under the Internal Revenue Code, if a lease provides for the rental of both real and personal property and the portion of the rent attributable to personal property is 15% or less of the total rent due under the lease, then all rent

paid pursuant to such lease qualifies as "rent from real property." If, however, a lease provides for the rental of both real and personal property, and the portion of the rent attributable to personal property exceeds 15% of the total rent due under the lease, then the portion of the rent that is attributable to personal property does not qualify as "rent from real property." The amount of rent attributable to personal property is that amount which bears the same ratio to total rent for the taxable year as the average of the adjusted tax bases of the personal property at the beginning and end of the year bears to the average of the aggregate adjusted tax bases of both the real and personal property at the beginning and end of such year. Host Marriott has represented that, with respect to each of its leases that includes a lease of items of personal property, the amount of rent attributable to personal property with respect to such lease, determined as set forth above, will not exceed 15% of the total rent due under the lease (except for a relatively small group of leases where the rent attributable to personal property, which would constitute non-qualifying income for purposes of the 75% and 95% gross income tests, would not be material relative to the overall gross income of Host Marriott). Each lease permits Host Marriott, L.P. to take certain measures, including requiring the lessee to purchase certain furniture, fixtures and equipment or to lease such property from a third party, including a non-controlled subsidiary, if necessary to ensure that all of the rent attributable to personal property with respect to such lease will qualify as "rent from real property." In order to protect Host Marriott's ability to qualify as a REIT, Host Marriott, L.P. sold substantial personal property associated with a number of hotels acquired in connection with the REIT conversion to a non-controlled subsidiary. The non-controlled subsidiary separately leases all such personal property directly to the applicable lessee and receives rental payments which Host Marriott believes represent the fair rental value of such personal property directly from the lessees. If such arrangements are not respected for federal income tax purposes, Host Marriott likely would not qualify as a REIT.

If any of the hotels were to be operated directly by Host Marriott, L.P. or a subsidiary as a result of a default by a lessee under the applicable lease, such hotel would constitute foreclosure property until the close of the third tax year following the tax year in which it was acquired, or for up to an additional three years if an extension is granted by the IRS, provided that:

- (1) the operating entity conducts operations through an independent contractor, which might, but would not necessarily in all circumstances, include Marriott International and its subsidiaries, within 90 days after the date the hotel is acquired as the result of a default by a lessee,
- (2) the operating entity does not undertake any construction on the foreclosed property other than completion of improvements that were more than 10% complete before default became imminent, and
- (3) foreclosure was not regarded as foreseeable at the time the applicable partnership entered into such lease. For as long as any of these hotels constitute foreclosure property, the income from the hotels would be subject to tax at the maximum corporate rates, but it would qualify under the 75% and 95% gross income tests.

However, if any of these hotels does not constitute foreclosure property at any time in the future, income earned from the disposition or operation of such property will not qualify under the 75% and 95% gross income tests.

"Interest" generally will not qualify under the 75% or 95% gross income tests if it depends in whole or in part on the income or profits of any person. However, interest will not fail to so qualify solely by reason of being based upon a fixed percentage or percentages of receipts or sales. Host Marriott does not expect to derive significant amounts of interest that will not qualify under the 75% and 95% gross income tests.

The non-controlled subsidiaries hold various assets, the ownership of which by Host Marriott, L.P. might jeopardize Host Marriott's status as a REIT. These assets primarily consist of partnership or other interests in hotels that are not leased, certain foreign hotels, and approximately \$75 million in value of personal property associated with certain Hotels. Host Marriott, L.P. owns 100% of the nonvoting stock of each non-controlled subsidiary but none of the voting stock or control of that non-controlled subsidiary. Each non-controlled subsidiary is taxable as a regular "C" corporation. Host Marriott, L.P.'s share of any dividends received from a non-controlled subsidiary should qualify for purposes of the 95% gross income test, but not for purposes of

the 75% gross income test. Host Marriott, L.P. does not anticipate that it will receive sufficient dividends from the non-controlled subsidiaries to cause it to fail the 75% gross income test.

Host Marriott inevitably will have some gross income from various sources that fails to constitute qualifying income for purposes of one or both of the 75% or 95% gross income tests. These include, but are not limited to, the following:

- . "safe harbor" leases,
- . the lease of the Harbor Beach Resort, which provides for rent based upon net profits,
- . the operation of the hotel that is located in Sacramento,
- . minority partnership interests in partnerships that own hotels that are not leased under leases that produce rents qualifying as "rents from real property," and
- . rent attributable to personal property at a relatively small group of hotels that does not satisfy the 15% personal property test.

Host Marriott, however, believes that, even taking into account the anticipated sources of non-qualifying income, its aggregate gross income from all sources will satisfy the 75% and 95% gross income tests applicable to REITs for each taxable year commencing subsequent to the date of the REIT conversion.

If Host Marriott fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for such year if it is entitled to relief under certain provisions of the Internal Revenue Code. These relief provisions will be generally available if Host Marriott's failure to meet such tests was due to reasonable cause and not due to willful neglect, Host Marriott attaches a schedule of the sources of its income to its federal income tax return and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances Host Marriott would be entitled to the benefit of these relief provisions. For example, if Host Marriott fails to satisfy the gross income tests because nonqualifying income that Host Marriott intentionally incurs exceeds the limits on such income, the IRS could conclude that Host Marriott's failure to satisfy the tests was not due to reasonable cause. If these relief provisions are inapplicable to a particular set of circumstances involving Host Marriott, Host Marriott will not qualify as a REIT. As discussed above in "--General," even if these relief provisions apply, a tax would be imposed with respect to the excess net income.

Any gain realized by Host Marriott on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of business, including Host Marriott's share of any such gain realized by Host Marriott, L.P., will be treated as income from a "prohibited transaction" that is subject to a 100% penalty tax. Such prohibited transaction income may also have an adverse effect upon Host Marriott's ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends upon all the facts and circumstances with respect to the particular transaction. Host Marriott, L.P. intends that both it and its subsidiaries will hold hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make such occasional sales of hotels as are consistent with Host Marriott, L.P.'s investment objectives. There can be no assurance, however, that the IRS might not contend that one or more of such sales is subject to the 100% penalty tax.

Asset Tests Applicable to REITs. Host Marriott, at the close of each quarter of its taxable year, must satisfy three tests relating to the nature of its assets. First, at least 75% of the value of Host Marriott's total assets must be represented by real estate assets. Host Marriott's real estate assets include, for this purpose, its allocable share of real estate assets held by Host Marriott, L.P. and the non-corporate subsidiaries of Host Marriott, L.P., as well as stock or debt instruments held for less than one year purchased with the proceeds of a stock offering, or long-term (at least five years) debt offering of Host Marriott, cash, cash items and government securities. Second, no more than 25% of Host Marriott's total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by Host Marriott may not exceed 5% of the value of Host Marriott's total assets and Host Marriott may not own more than 10% of any one issuer's outstanding voting securities.

Host Marriott, L.P. does not own any of the voting stock of any of non-controlled subsidiaries but it does own 100% of the nonvoting stock of each non-controlled subsidiary. Host Marriott, L.P. may also own nonvoting stock, representing substantially all of the equity, in other corporate entities that serve as partners or members in the various entities that hold title to the hotels. Neither Host Marriott, Host Marriott, L.P., nor any of the non-corporate subsidiaries of Host Marriott, L.P., own more than 10% of the voting securities of any entity that is treated as a corporation for federal income tax purposes. In addition, Host Marriott believes that the securities of any one issuer owned by Host Marriott, Host Marriott, L.P., or any of the non-corporate subsidiaries of Host Marriott, L.P., including Host Marriott's pro rata share of the value of the securities of each non-controlled subsidiary do not exceed 5% of the total value of Host Marriott's assets. There can be no assurance, however, that the IRS might not contend that the value of such securities exceeds the 5% value limitation or that nonvoting stock of a non-controlled subsidiary or another corporate entity owned by Host Marriott, L.P. should be considered "voting stock" for this purpose.

After initially meeting the asset tests at the close of any quarter, Host Marriott will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. An example of such an acquisition would be an increase in Host Marriott's interest in Host Marriott, L.P. as a result of the exercise of a limited partner's unit redemption right or an additional capital contribution of proceeds from an offering of capital stock by Host Marriott. Host Marriott to maintains adequate records of the value of its assets to ensure compliance with the asset tests and to take such other actions within 30 days after the close of any quarter as may be required to cure any noncompliance. If Host Marriott fails to cure noncompliance with the asset tests within such time period, Host Marriott would cease to qualify as a REIT.

Clinton Administration's Proposed Changes to REIT Asset Test. The Clinton Administration's fiscal year 1999 budget proposal, announced on February 2, 1998, includes a proposal to amend the 10% voting securities test. The proposal would require a REIT to own no more than 10% of the vote or value of all classes of stock of any corporation (except for qualified REIT subsidiaries or corporations that qualify as REITs). Corporations existing prior to the effective date of the proposal generally would be "grandfathered"; i.e., the REIT would be subject to the existing 10% voting securities test described above with respect to grandfathered corporations. However, such "grandfathered" status would terminate with respect to a corporation if the corporation engaged in a new trade or business or acquired substantially new assets.

Because Host Marriott, L.P. owns 100% of the nonvoting stock of each non-controlled subsidiary, and Host Marriott is deemed to own an interest in each non-controlled subsidiary equal to its proportionate interest in Host Marriott, L.P., Host Marriott would not satisfy the proposed 10% value limitation with respect to any of the non-controlled subsidiaries. Whether any of the non-controlled subsidiaries would qualify as a grandfathered corporation as the proposal is currently drafted would depend upon the effective date of the proposal, which is not yet known. If a non-controlled subsidiary otherwise eligible for "grandfathered" status were to engage in a new trade or business or were to acquire substantial new assets, or if Host Marriott were to make a capital contribution to a non-controlled subsidiary otherwise eligible for "grandfathered" status, its "grandfathered" status would terminate and Host Marriott would fail to qualify as a REIT. Moreover, Host Marriott would not be able to own, directly or indirectly, more than 10% of the vote or value of any corporation formed or acquired after the effective date of the proposal. Thus, the proposal, if enacted, would materially impede Host Marriott's ability to engage in new third-party management or similar activities.

Annual Distribution Requirements Applicable to REITs. Host Marriott, in order to qualify as a REIT, is required to distribute dividends, other than capital gain dividends, to its stockholders in an amount at least equal to

- (i) the sum of (a) 95% of REIT taxable income, computed without regard to the dividends paid deduction and Host Marriott's net capital gain, and
- (b) 95% of the net income, after tax, if any, from foreclosure property, minus

(ii) the sum of certain items of noncash income.

In addition, if Host Marriott disposes of any built-in gain asset during its Recognition Period, Host Marriott is required, pursuant to federal regulations which have not yet been promulgated, to distribute at least 95% of the built-in gain, after tax, if any, recognized on the disposition of such asset. See "--General" above for a discussion of built-in gain assets. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before Host Marriott timely files its tax return for such year and if paid on or before the first regular dividend payment date after such declaration. Host Marriott intends to make timely distributions sufficient to satisfy these annual distribution requirements. In this regard, Host Marriott, L.P.'s partnership agreement authorizes Host Marriott, as general partner, to take such steps as may be necessary to cause Host Marriott, L.P. to distribute to its partners an amount sufficient to permit Host Marriott to meet these distribution requirements.

To the extent that Host Marriott does not distribute all of its net capital gain or distributes at least 95%, but less than 100%, of its REIT taxable income, as adjusted, it is subject to tax thereon at regular ordinary and capital gain corporate tax rates. Host Marriott, however, may designate some or all of its retained net capital gain, so that, although the designated amount will not be treated as distributed for purposes of this tax, a stockholder would include its proportionate share of such amount in income, as capital gain, and would be treated as having paid its proportionate share of the tax paid Host Marriott with respect to such amount. The stockholder's basis in its capital stock of Host Marriott would be increased by the amount the stockholder included in income and decreased by the amount of the tax the stockholder is treated as having paid. Host Marriott would make an appropriate adjustment to its earnings and profits. For a more detailed description of the federal income tax consequences to a stockholder of such a designation, see "--Taxation of Taxable U.S. Stockholders Generally."

There is a significant possibility that Host Marriott's REIT taxable income will exceed its cash flow, due in part to certain "non-cash" or "phantom" income expected to be taken into account in computing Host Marriott's REIT taxable income. Host Marriott anticipates, however, that it will generally have sufficient cash or liquid assets to enable it to satisfy the distribution requirements described above. It is possible, however, that Host Marriott, from time to time, may not have sufficient cash or other liquid assets to meet these distribution requirements. In such event, in order to meet the distribution requirements, Host Marriott may find it necessary to arrange for short-term, or possibly long-term, borrowings to fund required distributions and/or to pay dividends in the form of taxable stock dividends.

Host Marriott calculates its REIT taxable income based upon the conclusion that the non-corporate subsidiaries of Host Marriott, L.P. or Host Marriott, L.P. itself, as applicable, is the owner of the hotels for federal income tax purposes. As a result, Host Marriott expects that the depreciation deductions with respect to the hotels will reduce its REIT taxable income. This conclusion is consistent with the conclusion above that the leases entered into with the Crestline subsidiaries will be treated as true leases for federal income tax purposes. If the IRS were to challenge successfully this position, in addition to failing in all likelihood the 75% and 95% gross income tests described above, Host Marriott also might be deemed retroactively to have failed to meet the REIT distribution requirements and would have to rely on the payment of a "deficiency dividend" in order to retain its REIT status.

Under certain circumstances, Host Marriott may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in Host Marriott's deduction for dividends paid for the earlier year. Thus, Host Marriott may be able to avoid being taxed on amounts distributed as deficiency dividends; however, Host Marriott would be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

Furthermore, if Host Marriott should fail to distribute during each calendar year at least the sum of 85% of its REIT ordinary income for such year, 95% of its REIT capital gain income for such year, and any

undistributed taxable income from prior periods, it would be subject to an excise tax. The excise tax would equal 4% of the excess of such required distribution over the sum of amounts actually distributed and amounts retained with respect to which the REIT pays federal income tax.

Failure of Host Marriott to Qualify as a REIT. If Host Marriott fails to qualify for taxation as a REIT in any taxable year, and if the relief provisions do not apply, Host Marriott will be subject to tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Distributions to stockholders in any year in which Host Marriott fails to qualify will not be deductible by Host Marriott nor will they be required to be made. As a result, Host Marriott's failure to qualify as a REIT would significantly reduce the cash available for distribution by Host Marriott to its stockholders and could materially reduce the value of its capital stock. In addition, if Host Marriott fails to qualify as a REIT, all distributions to stockholders will be taxable as ordinary income, to the extent of Host Marriott's current and accumulated E&P, although, subject to certain limitations of the Internal Revenue Code, corporate distributees may be eligible for the dividends received deduction with respect to these distributions. Unless entitled to relief under specific statutory provisions, Host Marriott also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances Host Marriott would be entitled to such statutory relief.

TAXATION OF TAXABLE U.S. STOCKHOLDERS GENERALLY

Distributions by Host Marriott. As long as Host Marriott qualifies as a REIT, distributions made by Host Marriott out of its current or accumulated E&P, and not designated as capital gain dividends constitute dividends taxable to its taxable U.S. stockholders as ordinary income. Such distributions are not eligible for the dividends received deduction in the case of U.S. stockholders that are corporations. To the extent that Host Marriott makes distribution not designated as capital gain dividends in excess of its current and accumulated E&P, such distributions are treated first as a tax-free return of capital to each U.S. stockholder, reducing the adjusted basis which such U.S. stockholder has in its common stock for tax purposes by the amount of such distribution but not below zero, with distributions in excess of a U.S. stockholder's adjusted basis in its common stock taxable as capital gains, provided that the common stock has been held as a capital asset. Dividends declared by Host Marriott in October, November or December of any year and payable to a stockholder of record on a specified date in any such month shall be treated as both paid by Host Marriott and received by the stockholder on December 31 of such year, provided that the dividend is actually paid by Host Marriott on or before January 31 of the following year.

Distributions made by Host Marriott that are properly designated by Host Marriott as capital gain dividends are taxable to taxable non-corporate U.S. stockholders, i.e., individuals, estates or trusts. They are taxed as gain from the sale or exchange of a capital asset held for more than one year to the extent that they do not exceed Host Marriott's actual net capital gain for the taxable year, without regard to the period for which such non-corporate U.S. stockholder has held his common stock. In the event that Host Marriott designates any portion of a dividend as a "capital gain dividend," a U.S. stockholder's share of such capital gain dividend would be an amount which bears the same ratio to the total amount of dividends paid to such U.S. stockholder for the year as the aggregate amount designated as a capital gain dividend bears to the aggregate amount of all dividends paid on all classes of shares for the year. On November 10, 1997, the IRS issued Notice 97-64, which provides generally that Host Marriott may classify portions of its designated capital gain dividend as either a 20% gain distribution, which would be taxable to non-corporate U.S. stockholders at a maximum rate of 20%, an unrecaptured Section 1250 gain distribution, which would be taxable to non-corporate U.S. stockholders at a maximum rate of 25%, or a 28% rate gain distribution, which would be taxable to non-corporate U.S. stockholders at a maximum rate of 28%. If no designation is made, the entire designated capital gain dividend will be treated as a 28% rate gain distribution. Notice 97-64 provides that a REIT must determine the maximum amounts that it may designate as 20% and 25% rate capital gain dividends by performing the computation required by the Internal Revenue Code as if the REIT were an individual whose ordinary income

were subject to a marginal tax rate of at least 28%. Notice 97-64 further provides that designations made by the REIT only will be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. On July 22, 1998, as part of the IRS Restructuring Act, the holding period requirement for the application of the 20% and 25% capital gain tax rates was reduced to 12 months from 18 months for sales of capital gain assets on or after January 1, 1998. Although Notice 97-64 will apply to sales of capital gain assets after July 28, 1997 and before January 1, 1998, it is expected that the IRS will issue clarifying guidance, most likely applying the same principles set forth in Notice 97-64, regarding a REIT's designation of capital gain dividends in light of the new holding period requirements. For a discussion of the capital gain tax rates applicable to non-corporate U.S. stockholders, see "--Taxpayer Relief Act and IRS Restructuring Act Changes to Capital Gain Taxation" below.

Distributions made by Host Marriott that are properly designated by Host Marriott as capital gain dividends will be taxable to taxable corporate U.S. stockholders as long-term gain to the extent that they do not exceed Host Marriott's actual net capital gain for the taxable year at a maximum rate of 35% without regard to the period for which such corporate U.S. stockholder has held its common stock. Such U.S. stockholders may, however, be required to treat up to 20% of certain capital gain dividends as ordinary income.

U.S. stockholders may not include in their individual income tax returns any net operating losses or capital losses of Host Marriott. Instead, such losses would be carried over by Host Marriott for potential offset against future income, subject to certain limitations. Distributions made by Host Marriott and gain arising from the sale or exchange by a U.S. stockholder of common stock will not be treated as passive activity income, and, as a result, U.S. stockholders generally will not be able to apply any "passive losses" against such income or gain. In addition, taxable distributions from Host Marriott generally will be treated as investment income for purposes of the investment interest limitation. Capital gain dividends and capital gains from the disposition of shares, including distributions treated as such, however, will be treated as investment income only if the U.S. stockholder so elects, in which case such capital gains will be taxed at ordinary income rates.

Host Marriott will notify stockholders after the close of its taxable year as to the portions of distributions attributable to that year that constitute ordinary income, return of capital and capital gain. Host Marriott may designate, by written notice to its stockholders, its net capital gain so that with respect to retained net capital gains, a U.S. stockholder would include its proportionate share of such gain in income, as long-term capital gain, and would be treated as having paid its proportionate share of the tax paid by Host Marriott with respect to the gain. The U.S. stockholder's basis in its common stock would be increased by its share of such gain and decreased by its share of such tax. With respect to such long-term capital gain of a U.S. stockholder that is an individual or an estate or trust, the IRS, as described above in this section, has authority to issue regulations that could apply the special tax rate applicable generally to the portion of the long-term capital gains of an individual or an estate or trust attributable to deductions for depreciation taken with respect to depreciable real property. IRS Notice 97-64, described above in this section, did not address the taxation of non-corporate REIT stockholders with respect to retained net capital gains.

Sales of Common Stock. Upon any sale or other disposition of common stock, a U.S. stockholder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between (i) the amount of cash and the fair market value of any property received on such sale or other disposition and (ii) the holder's adjusted basis in such common stock for tax purposes. Such gain or loss will be capital gain or loss if the common stock has been held by the U.S. stockholder as a capital asset. In the case of a U.S. stockholder who is an individual or an estate or trust, such gain or loss will be long-term capital gain or loss, and any such long-term capital gain shall be subject to the maximum capital gain rate of 20%. In the case of a U.S. stockholder that is a corporation, such gain or loss will be long-term capital gain or loss if such shares have been held for more than one year, and any such capital gain shall be subject to the maximum capital gain rate of 35%. In general, any loss recognized by a U.S. stockholder upon the sale or other disposition of common stock that has been held for six months or less, after applying certain holding period rules, will be treated as a

long-term capital loss, to the extent of distributions received by such U.S. stockholder from Host Marriott that were required to be treated as long-term capital gains.

Taxpayer Relief Act and IRS Restructuring Act Changes to Capital Gain Taxation. The Taxpayer Relief Act of 1997 altered the taxation of capital gain income. Under the Act, individuals, trusts and estates that hold certain investments for more than 18 months may be taxed at a maximum long-term capital gain rate of 20% on the sale or exchange of those investments. Individuals, trusts and estates that hold certain assets for more than one year but not more than 18 months may be taxed at a maximum long-term capital gain rate of 28% on the sale or exchange of those investments. The Taxpayer Relief Act also provides a maximum rate of 25% for "unrecaptured Section 1250 gain" for individuals, trusts and estates, special rules for "qualified 5-year gain" and other changes to prior law. The recently enacted IRS Restructuring Act of 1998, however, reduced the holding period requirement established by the Taxpayer Relief Act for the application of the 20% and 25% capital gain tax rates to 12 months from 18 months for sales of capital gain assets after December 31, 1997. The Taxpayer Relief Act allows the IRS to prescribe regulations on how the Taxpayer Relief Act's capital gain rates will apply to sales of capital assets by "pass-through entities," including REITs, such as Host Marriott, and to sales of interests in "pass-through entities." For a discussion of the rules under the Taxpayer Relief Act that apply to the taxation of distributions by Host Marriott to its stockholders that are designated by Host Marriott as "capital gain dividends," see "--Distributions by Host Marriott" above. Stockholders are urged to consult with their own tax advisors with respect to the rules contained in the Taxpayer Relief Act and the IRS Restructuring Act.

BACKUP WITHHOLDING FOR HOST MARRIOTT'S DISTRIBUTIONS

Host Marriott reports to its U.S. stockholders and the IRS the amount of dividends paid during each calendar year and the amount of tax withheld, if any. Under the backup withholding rules, a U.S. stockholder may be subject to backup withholding at the rate of 31% with respect to dividends paid unless such holder either is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A U.S. stockholder that does not provide Host Marriott with a correct taxpayer identification number may also be subject to penalties imposed by the IRS. Any amount paid as backup withholding is creditable against the stockholder's income tax liability. In addition, Host Marriott may be required to withhold a portion of its capital gain distributions to any U.S. stockholders who fail to certify their non-foreign status to Host Marriott. See "--Taxation of Non-U.S. Stockholders."

TAXATION OF TAX-EXEMPT STOCKHOLDERS

Provided that a tax-exempt stockholder has not held its common stock as "debt financed property" within the meaning of the Internal Revenue Code and such common stock are not otherwise used in a trade or business, the dividend income from Host Marriott will not be unrelated business taxable income ("UBTI") to a tax-exempt stockholder. Similarly, income from the sale of common stock will not constitute UBTI unless such tax-exempt stockholder has held such common stock as "debt financed property" within the meaning of the Internal Revenue Code or has used the common stock in a trade or business.

However, for a tax-exempt stockholder that is a social club, voluntary employee benefit association, supplemental unemployment benefit trust or qualified group legal services plan exempt from federal income taxation under Internal Revenue Code Sections 501 (c)(7), (c)(9), (c)(17) and (c)(20), respectively, income from an investment in Host Marriott will constitute UBTI unless the organization is properly able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in Host Marriott. Such a prospective stockholder should consult its own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, the Omnibus Budget Reconciliation Act of 1993 provides that, effective for taxable years beginning in 1994, a portion of the dividends paid by a "pension held REIT" shall

be treated as UBTI as to any trust which is described in Section 401(a) of the Internal Revenue Code, is tax-exempt under Section 501(a) of the Internal Revenue Code and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "qualified trusts."

A REIT is a "pension held REIT" if (i) it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Internal Revenue Code, added by the 1993 Act, provides that stock owned by qualified trusts shall be treated, for purposes of the "not closely held" requirement, as owned by the beneficiaries of the trust rather than by the trust itself, and (ii) either (a) at least one such qualified trust holds more than 25% by value, of the interests in the REIT, or (b) one or more such qualified trusts, each of which owns more than 10%, by value, of the interests in the REIT, hold in the aggregate more than 50%, by value, of the interests in the REIT. The percentage of any REIT dividend treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a qualified trust and therefore subject to tax on UBTI, to the total gross income of the REIT. A de minimis exception applies where the percentage is less than 5% for any year. The provisions requiring qualified trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the "not closely held" requirement without relying upon the "look-through" exception with respect to qualified trusts.

Based on the current estimated ownership of Host Marriott common stock and as a result of certain limitations on transfer and ownership of common stock contained in the Host Marriott Articles of Incorporation, Host Marriott should not be classified as a "pension held REIT."

TAXATION OF NON-U.S. STOCKHOLDERS

The rules governing federal income taxation of the ownership and disposition of common stock by non-U.S. stockholders are complex and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of federal income tax and does not address state, local or foreign tax consequences that may be relevant to a non-U.S. stockholder in light of its particular circumstances. In addition, this discussion is based on current law, which is subject to change, and assumes that Host Marriott qualifies for taxation as a REIT. Prospective non-U.S. stockholders should consult with their own tax advisers to determine the impact of federal, state, local and foreign income tax laws with regard to an investment in common stock, including any reporting requirements.

Distributions by Host Marriott. Distributions by Host Marriott to a non-U.S. stockholder that are neither attributable to gain from sales or exchanges by Host Marriott of United States real property interests nor designated by Host Marriott as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of current or accumulated E&P of Host Marriott. Such distributions ordinarily will be subject to withholding of United States federal income tax on a gross basis (that is, without allowance of deductions) at a 30% rate or such lower rate as may be specified by an applicable income tax treaty, unless the dividends are treated as effectively connected with the conduct by the non-U.S. stockholder of a United States trade or business. Under certain treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from a REIT, such as Host Marriott. Certain certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption. Dividends that are effectively connected with such a trade or business will be subject to tax on a net basis (that is, after allowance of deductions) at graduated rates, in the same manner as U.S. stockholders are taxed with respect to such dividends and are generally not subject to withholding. Any such dividends received by a non-U.S. stockholder that is a corporation may also be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. Host Marriott expects to withhold United States income tax at the rate of 30% on any distribution made to a non-U.S. stockholder unless (i) a lower treaty rate applies and any required form or certification evidencing eligibility for that lower rate is filed with Host Marriott or (ii) a non-U.S. stockholder files an IRS Form 4224 with Host Marriott claiming that the distribution is effectively connected income.

Distributions in excess of the current or accumulated E&P of Host Marriott will not be taxable to a non-U.S. stockholder to the extent that they do not exceed the adjusted basis of the stockholder's common stock, but rather will reduce the adjusted basis of such common stock. To the extent that such distributions exceed the adjusted basis of a non-U.S. stockholder's common stock, they will give rise to gain from the sale or exchange of its common stock, the tax treatment of which is described below.

As a result of a legislative change made by the Small Business Job Protection Act of 1996, it appears that Host Marriott will be required to withhold 10% of any distribution in excess of its current and accumulated E&P. Consequently, although Host Marriott intends to withhold at a rate of 30%, or a lower applicable treaty rate, on the entire amount of any distribution, to the extent that Host Marriott does not do so, any portion of a distribution not subject to withholding at a rate of 30%, or lower applicable treaty rate, would be subject to withholding at a rate of 10%. However, a non-U.S. stockholder may seek a refund of such amounts from the IRS if it subsequently determined that such distribution was, in fact, in excess of current or accumulated E&P of Host Marriott, and the amount withheld exceeded the non-U.S. stockholder's United States tax liability, if any, with respect to the distribution.

Distributions to a non-U.S. stockholder that are designated by Host Marriott at the time of distribution as capital gain dividends, other than those arising from the disposition of a United States real property interest, generally will not be subject to United States federal income taxation, unless:

- (i) the investment in the common stock is effectively connected with the non-U.S. stockholder's United States trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain, except that a stockholder that is a foreign corporation may also be subject to the 30% branch profits tax, as discussed above, or
- (ii) the non-U.S. stockholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Pursuant to the federal law known as FIRPTA, distributions to a non-U.S. stockholder that are attributable to gain from sales or exchanges by Host Marriott of United States real property interests, whether or not designated as capital gain dividends, will cause the non-U.S. stockholder to be treated as recognizing such gain as income effectively connected with a United States trade or business. non-U.S. stockholders would thus generally be taxed at the same rates applicable to U.S. stockholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, such gain may be subject to a 30% branch profits tax in the hands of a non-U.S. stockholder that is a corporation, as discussed above. Host Marriott is required to withhold 35% of any such distribution. That amount is creditable against the non-U.S. stockholder's federal income tax liability.

Although the law is not entirely clear on the matter, it appears that amounts designated by Host Marriott pursuant to the Taxpayer Relief Act as undistributed capital gains in respect of the common stock held by U.S. Stockholders (see "--Annual Distribution Requirements Applicable to REITs" above) would be treated with respect to non-U.S. stockholders in the manner outlined in the preceding two paragraphs for actual distributions by Host Marriott of capital gain dividends. Under that approach, the non-U.S. stockholders would be able to offset as a credit against their United States federal income tax liability resulting therefrom their proportionate share of the tax paid by Host Marriott on such undistributed capital gains and to receive from the IRS a refund to the extent their proportionate share of such tax paid by Host Marriott were to exceed their actual United States federal income tax liability.

Sales of Common Stock. Gain recognized by a non-U.S. stockholder upon the sale or exchange of common stock generally will not be subject to United States taxation unless such shares constitute a "United States real property interest" within the meaning of FIRPTA. The common stock will not constitute a "United States real property interest" so long as Host Marriott is a "domestically controlled REIT." A "domestically

controlled REIT" is a REIT in which at all times during a specified testing period less than 50% in value of its stock is held directly or indirectly by non-U.S. stockholders. Host Marriott believes, but cannot guarantee, that it is a "domestically controlled REIT." Moreover, even if Host Marriott is a "domestically controlled REIT," because the common stock is publicly traded, no assurance can be given that Host Marriott will continue to be a "domestically controlled REIT." Notwithstanding the foregoing, gain from the sale or exchange of common stock not otherwise subject to FIRPTA will be taxable to a non-U.S. stockholder if the non-U.S. stockholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States. In such case, the nonresident alien individual will be subject to a 30% United States withholding tax on the amount of such individual's gain.

Even if Host Marriott does not qualify as or ceases to be a "domestically controlled REIT," gain arising from the sale or exchange by a non-U.S. stockholder of common stock would not be subject to United States taxation under FIRPTA as a sale of a "United States real property interest" if:

- (i) the common stock is "regularly traded," as defined by applicable regulations, on an established securities market such as the NYSE, and
- (ii) such non-U.S. stockholder owned 5% or less of the common stock throughout the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of common stock were subject to taxation under FIRPTA, the non-U.S. stockholder would be subject to regular United States income tax with respect to such gain in the same manner as a taxable U.S. stockholder (subject to any applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals and the possible application of the 30% branch profits tax in the case of foreign corporations) and the purchaser of the common stock would be required to withhold and remit to the IRS 10% of the purchase price.

Backup Withholding Tax and Information Reporting. Backup withholding tax generally is a withholding tax imposed at the rate of 31% on certain payments to persons that fail to furnish certain information under the United States information reporting requirements. Backup withholding and information reporting will generally not apply to distributions paid to non-U.S. stockholders outside the United States that are treated as dividends subject to the 30% (or lower treaty rate) withholding tax discussed above, capital gain dividends or distributions attributable to gain from the sale or exchange by Host Marriott of United States real property interests. As a general matter, backup withholding and information reporting will not apply to a payment of the proceeds of a sale of common stock by or through a foreign office of a foreign broker. Generally, information reporting (but not backup withholding) will apply, however, to a payment of the proceeds of a sale of common stock by a foreign office of a broker that:

- (a) is a United States person,
- (b) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or
- (c) is a "controlled foreign corporation," which is, generally, a foreign corporation controlled by United States stockholders.

If, however, the broker has documentary evidence in its records that the holder is a non-U.S. stockholder and certain other conditions are met or the stockholder otherwise establishes an exemption information reporting will not apply. Payment to or through a United States office of a broker of the proceeds of a sale of common stock is subject to both backup withholding and information reporting unless the stockholder certifies under penalty of perjury that the stockholder is a non-U.S. stockholder, or otherwise establishes an exemption. A non-U.S. stockholder may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

The IRS has recently finalized regulations regarding the withholding and information reporting rules discussed above. In general, these regulations do not alter the substantive withholding and information reporting requirements but unify certification procedures and forms and clarify and modify reliance standards. These regulations generally are effective for payments made after December 31, 2000, subject to certain transition rules. Valid withholding certificates that are held on December 31, 1999, will remain valid until the earlier of December 31, 2000 or the date of expiration of the certificate under rules currently in effect, unless otherwise invalidated due to changes in the circumstances of the person whose name is on such certificate. A non-U.S. stockholder should consult its own advisor regarding the effect of the new regulations.

TAX ASPECTS OF HOST MARRIOTT'S OWNERSHIP OF INTERESTS IN HOST MARRIOTT, L.P.

General. Substantially all of Host Marriott's investments are held through Host Marriott, L.P., which will hold the hotels either directly or through certain subsidiaries. In general, partnerships are "pass-through" entities that are not subject to federal income tax. Rather, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax thereon, without regard to whether the partners receive a distribution from the partnership. Host Marriott includes in its income its proportionate share of the foregoing partnership items for purposes of the various REIT income tests and in the computation of its REIT taxable income. Moreover, for purposes of the REIT asset tests, Host Marriott includes its proportionate share of assets held through Host Marriott, L.P. and certain of its subsidiaries. See "--Federal Income Taxation of Host Marriott--Ownership of Partnership Interests by a REIT."

Entity Classification. If Host Marriott, L.P. or any non-corporate subsidiary other than a subsidiary held through an entity treated for federal income tax purposes as a corporation were treated as an association, the entity would be taxable as a corporation and therefore would be subject to an entity level tax on its income. In such a situation, the character of Host Marriott's assets and items of gross income would change and could preclude Host Marriott from qualifying as a REIT (see "--Federal Income Taxation of Host Marriott--Asset Tests Applicable to REITs" and "--Income Tests Applicable to REITs").

The entire discussion of the federal income tax consequences of the ownership of common stock is based on Host Marriott, L.P. and all of its non-corporate subsidiaries, other than a subsidiary held by an entity treated as a corporation for federal income tax purposes, being classified as partnerships for federal income tax purposes. Pursuant to regulations under Section 7701 of the Internal Revenue Code, a partnership will be treated as a partnership for federal income tax purposes unless it elects to be treated as a corporation or would be treated as a corporation because it is a "publicly traded partnership." Neither Host Marriott, L.P. nor any of the non-corporate subsidiaries have elected or will elect to be treated as a corporation, and therefore, subject to the disclosure below, each will be treated as a partnership for federal income tax purposes (or if it has only one partner or member, disregarded entirely for federal income tax purposes).

Pursuant to Section 7704 of the Internal Revenue Code, however, a partnership that does not elect to be treated as a corporation nevertheless will be treated as a corporation for federal income tax purposes if it is a "publicly traded partnership," unless at least ninety percent (90%) of its income consists of "qualifying income" within the meaning of that section. A "publicly traded partnership" is any partnership (i) the interests in which are traded on an established securities market or (ii) the interests in which are readily tradable on a "secondary market or the substantial equivalent thereof." Units of limited partnership interest in Host Marriott L.P. will not be traded on an established securities market. There is a significant risk, however, that after the right to redeem such units becomes exercisable, such interests would be considered readily tradable on the substantial equivalent of a secondary market. In this regard, the income requirements generally applicable to REITs and the definition of "qualifying income" under Section 7704 of the Internal Revenue Code are similar in most key respects. There is one significant difference, however, that is relevant to Host Marriott, L.P. For a REIT, rent from a tenant does not qualify as "rents from real property" if the REIT and/or one or more actual or constructive owners of 10% or more of the REIT actually or constructively own 10% or more of the tenant; under Section 7704 of the Internal Revenue Code, rent from a tenant is not qualifying income if a partnership

and/or one or more actual or constructive owners of 5% or more of the partnership actually or constructively own 10% or more of the tenant.

A substantial majority of Host Marriott, L.P. income comes from rent payments by subsidiaries of Crestline. Accordingly, because The Blackstone Group, Host Marriott and any owner of 10% or more of Host Marriott will own or be deemed to own 5% or more of Host Marriott, L.P., if The Blackstone Group, Host Marriott and/or any owner of 10% or more of Host Marriott were to own or be deemed to own collectively 10% or more of Crestline, none of the rent from the lessees of Host Marriott's hotels would be qualifying income for purposes of determining whether Host Marriott, L.P. should be taxed as a corporation. In order to avoid this result, the Crestline articles of incorporation expressly provide that no person (or persons acting as a group), including The Blackstone Group, Host Marriott and any owner of 10% or more of Host Marriott, may own, actually and/or constructively, more than 9.8% by value of the equity in Crestline and the Crestline articles of incorporation contain self-executing mechanisms intended to enforce this prohibition. In addition, Host Marriott, L.P.'s partnership agreement prohibits any person, or persons acting as a group, or entity, other than an affiliate of The Blackstone Group and Host Marriott, from owning, actually and/or constructively, more than 4.9% of the value of Host Marriott, L.P., and the Host Marriott charter prohibits any person, or persons acting as a group, or entity, including The Blackstone Group and the Marriott family and their affiliated entities as a group, from, subject to certain limited exceptions, owning, actually and/or constructively, more than 9.8% of the number or value of the total outstanding shares of Host Marriott. Assuming that all of these prohibitions are enforced at all times in accordance with their terms, then so long as Host Marriott, L.P.'s income is such that Host Marriott could meet the gross income tests applicable to REITs (see "--Federal Income Taxation of Host Marriott--Income Tests Applicable to REITs" and "--Ownership of Partnership Interests by a REIT"), Host Marriott, L.P.'s "qualifying income" should be sufficient for it to avoid being classified as a corporation even if it were considered a publicly traded partnership.

If Host Marriott, L.P. were taxable as a corporation, most, if not all, of the tax consequences described herein would be inapplicable. In particular, Host Marriott would not qualify as a REIT because the value of Host Marriott's ownership interest in Host Marriott, L.P. would exceed 5% of Host Marriott's assets and Host Marriott would be considered to hold more than 10% of the voting securities of another corporation (see "--Federal Income Taxation of Host Marriott--Asset Tests Applicable to REITs"), which would adversely affect the value of the common stock (see "--Federal Income Taxation of Host Marriott--Failure of Host Marriott to qualify as a REIT").

Allocations of Operating Partnership Income, Gain, Loss and Deduction. The partnership agreement of the Host Marriott, L.P. provides that if Host Marriott, L.P. operates at a net loss, net losses shall be allocated to Host Marriott and the limited partners in proportion to their respective percentage ownership interests in Host Marriott, L.P., provided that net losses that would have the effect of creating a deficit balance in a limited partner's capital account as specially adjusted for such purpose ("Excess Losses") will be reallocated to Host Marriott, as general partner of Host Marriott, L.P. The partnership agreement also provides that, if Host Marriott, L.P. operates at a net profit, net income shall be allocated first to Host Marriott to the extent of Excess Losses with respect to which Host Marriott has not previously been allocated net income. Any remaining net income shall be allocated in proportion to the respective percentage ownership interests of Host Marriott and the limited partners. Finally, the partnership agreement provides that if Host Marriott, L.P. has preferred units outstanding, income will first be allocated to such preferred units to the extent necessary to reflect and preserve the economic rights associated with such preferred units.

Although a partnership agreement will generally determine the allocation of income and loss among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of Section 704(b) of the Internal Revenue Code and the applicable regulations. Generally, Section 704(b) and the applicable regulations require that partnership allocations respect the economic arrangement of the partners.

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into

account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. The allocations of taxable income and loss provided for in the Host Marriott, L.P. partnership agreement and the partnership agreements and operating agreements of the non-corporate subsidiaries are intended to comply with the requirements of Section 704(b) of the Internal Revenue Code and the regulations promulgated thereunder.

Tax Allocations with Respect to the Hotels. Pursuant to Section 704(c) of the Internal Revenue Code, income, gain, loss and deduction attributable to appreciated or depreciated property, such as the hotels, that is contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the difference between the adjusted tax basis and the fair market value of such property at the time of contribution associated with the property at the time of the contribution. This difference is known as built-in gain. The Host Marriott, L.P. partnership agreement requires that such allocations be made in a manner consistent with Section 704(c) of the Internal Revenue Code. In general, the partners of Host Marriott, L.P., including Host Marriott, who contributed depreciated assets having built-in gain are allocated depreciation deductions for tax purposes that are lower than such deductions would be if determined on a pro rata basis. Thus, the carryover basis of the contributed assets in the hands of Host Marriott, L.P. may cause Host Marriott to be allocated lower depreciation and other deductions, and therefore to be effectively allocated more income, which might adversely affect Host Marriott's ability to comply with the REIT distribution requirements. See "--Federal Income Taxation of Host Marriott--Annual Distribution Requirements Applicable to REITs".

In addition, in the event of the disposition of any of the contributed assets which have built-in gain, all income attributable to the built-in gain generally will be allocated to the contributing partners, even though the proceeds of such sale would be allocated proportionately among all the partners and likely would be retained by Host Marriott, L.P., rather than distributed. Thus, if Host Marriott, L.P. were to sell a hotel with built-in gain that was contributed to Host Marriott, L.P. by Host Marriott's predecessors or Host Marriott, Host Marriott generally would be allocated all of the income attributable to the built-in gain, which could exceed the economic or book income allocated to it as a result of such sale. Such an allocation might cause Host Marriott to recognize taxable income in excess of cash proceeds, which might adversely affect Host Marriott's ability to comply with the REIT distribution requirements. In addition, Host Marriott will be subject to a corporate level tax on such gain to the extent the gain is recognized within the 10-year period after the first day of Host Marriott's first taxable year as a REIT). See "--Federal Income Taxation of Host Marriott--Annual Distribution Requirements Applicable to REITs" and "--Federal Income Taxation of Host Marriott-General." It should be noted in this regard that as the general partner of Host Marriott, L.P., Host Marriott will determine whether or not to sell a hotel contributed to Host Marriott, L.P. by Host Marriott.

Host Marriott, L.P. and Host Marriott generally use the traditional method, with a provision for a curative allocation of gain on sale to the extent prior allocations of depreciation with respect to a specific hotel were limited by the "ceiling rule" applicable under the traditional method, to account for built-in gain with respect to the hotels contributed to Host Marriott, L.P. in connection with the REIT conversion. This method is generally a more favorable method for accounting for built-in gain from the perspective of those partners, including Host Marriott, who received units of limited partnership interest in Host Marriott, L.P. in exchange for property with a low basis relative to value at the time of the REIT conversion and is a less favorable method from the perspective of those partners who contributed cash or "high basis" assets to Host Marriott, L.P., including Host Marriott, to the extent it contributes cash to Host Marriott, L.P.

Any property purchased by Host Marriott, L.P. subsequent to the REIT conversion will initially have a tax basis equal to its fair market value, and Section 704(c) of the Internal Revenue Code will not apply.

OTHER TAX CONSEQUENCES FOR HOST MARRIOTT AND ITS STOCKHOLDERS

Host Marriott and its stockholders are subject to state or local taxation in various state or local jurisdictions, including those in which Host Marriott, L.P. or they transact business or reside. The state and local tax treatment of Host Marriott and its stockholders may not conform to the federal income tax consequences discussed above. Consequently, prospective stockholders of Host Marriott should consult their own tax advisors regarding the effect of state and local tax laws on an investment in Host Marriott.

A portion of the cash to be used by Host Marriott to fund distributions comes from each non-controlled subsidiary through payments of dividends on the shares of such corporation held by Host Marriott, L.P. and, in some cases, interest on notes held by Host Marriott, L.P. Each non-controlled subsidiary pays federal and state income tax at the full applicable corporate rates on its taxable income computed without regard to any deduction for dividends. To the extent that a non-controlled subsidiary is required to pay federal, state or local taxes, the cash otherwise available for distribution by Host Marriott to its stockholders will be reduced accordingly.