

**UNITED STATES
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 9, 2005

HOST MARRIOTT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation)

7011
(Commission File Number)

53-0085950
(IRS Employer
Identification Number)

6903 Rockledge Drive, Suite 1500
Bethesda, Maryland
(Address of principal executive offices)

20817
(Zip Code)

(240) 744-1000
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

Host Marriott Corporation is filing as Exhibit 99.1 (which is incorporated by reference herein) a discussion identifying important factors that could adversely affect Host Marriott's cash flows, financial condition, results of operations and/or its ability to make distributions to its stockholders. These risk factors contained in Exhibit 99.1 replace and supersede prior risk factors filed by Host Marriott to the extent they are inconsistent with those risk factors.

Host Marriott also is filing as Exhibit 99.2 (which is incorporated by reference herein) a description of the material U.S. federal income tax considerations relating to the taxation of Host Marriott as a real estate investment trust for federal income tax purposes and the purchase, ownership and disposition of Host Marriott stock. This description contained in Exhibit 99.2 replaces and supersedes prior descriptions of the federal income tax treatment of Host Marriott and its stockholders to the extent that they are inconsistent with the description contained in this Form 8-K.

Item 9.01. Financial Statements and Exhibits.

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits.

Exhibit Number	Description
99.1	Host Marriott Risk Factors
99.2	Material Federal Income Tax Considerations

SIGNATURE

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.

HOST MARRIOTT CORPORATION

Date: December 9, 2005

By: /s/ Larry K. Harvey

Larry K. Harvey
Senior Vice President and Corporate Controller

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99.1	Host Marriott Risk Factors
99.2	Material Federal Income Tax Considerations

FORWARD-LOOKING STATEMENTS

In this report on Form 8-K, we make some “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are included throughout this report on Form 8-K and the information incorporated by reference herein, including in the section entitled “Risk Factors” and relate to, among other things, analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will,” “continue,” and other similar terms and phrases, including references to assumptions.

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

- national and local economic and business conditions and changes in travel patterns that will affect demand for hotel products and services, the level of room rates and occupancy that can be achieved by such properties and the availability and terms of financing and our liquidity;
- changes in taxes and government regulations that influence or determine wages, prices, construction procedures and costs;
- operating risks associated with the hotel business;
- risks associated with the level of our indebtedness, which may affect our ability to obtain financing in the future, and our ability to meet covenants in our debt agreements;
- our relationships with property managers;
- our ability to maintain our respective properties in a first-class manner, including meeting capital expenditure requirements;
- our ability to compete effectively in areas such as access, location, quality of accommodations and room rate;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with expectations;
- our degree of leverage, which may affect our ability to obtain financing in the future;

- the reduction in our operating flexibility and our ability to pay dividends resulting from restrictive covenants contained in our debt agreements, including the risk of default that could occur, and in the terms of our preferred stock;
- the effect of terror alerts and potential terrorist activity on travel and our ability to recover fully under our existing insurance for terrorist acts and our ability to maintain adequate or full replacement cost “all-risk” property insurance on our properties;
- government approvals, actions and initiatives, including the need for compliance with environmental and safety requirements, and changes in laws and regulations or the interpretation thereof;
- the effects of tax legislative action;
- our ability, and the ability of each of our subsidiary REITs, if any, to continue to satisfy complex rules in order to qualify and maintain status as a Real Estate Investment Trust (“REIT”) for federal income tax purposes, the ability of Host Marriott L.P. to satisfy the rules to maintain its status as a partnership for federal income tax purposes, the ability of certain of our subsidiaries to maintain their status as taxable REIT subsidiaries for federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- the effect of any rating agency downgrades on the cost and availability of new debt financings;
- the relatively fixed nature of our property-level operating costs and expenses; and
- other factors discussed under the heading “Risk Factors” and in other filings with the Securities and Exchange Commission (“SEC”).

Although we believe that the expectations reflected in any of our forward-looking statements are based upon reasonable assumptions, any of these assumptions could prove to be inaccurate and the forward-looking statement based on these assumptions could be incorrect and actual results could differ materially from those projected or assumed. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent known and unknown risks and uncertainties. Accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described above and under the heading “Risk Factors” and in our other filings with the SEC. Except as otherwise required by the federal securities laws, we disclaim any obligation to publicly release any updates or revisions to any forward-looking statement contained in this annual report on Form 8-K to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RISK FACTORS

Prospective investors should carefully consider, among other factors, the material risks described below. Host Marriott Corporation owns properties and conducts operations through Host Marriott, L.P., a Delaware limited partnership of which Host Marriott Corporation is the sole general partner and in which it currently holds approximately 95% of the partnership interests. In this discussion, the terms “we” or “our” refer to Host Marriott Corporation and Host Marriott, L.P. together, unless the context indicates otherwise. The term “HMC” is used to refer specifically to Host Marriott Corporation and the term “Host LP” to refer to Host Marriott, L.P. (and its consolidated subsidiaries), in cases in which it is important to distinguish between HMC and Host LP.

On November 14, 2005, we announced our entry into a master agreement and plan of merger, or “master agreement,” with Starwood Hotels and Resorts Worldwide, Inc., or “Starwood,” Starwood Hotels & Resorts, or “Starwood Trust,” Sheraton Holding Corporation, or “SHC,” and the other entities named therein, pertaining to Host’s acquisition from Starwood and Starwood Trust of certain entities and assets that collectively own 25 domestic and 13 international hotels (the transactions described in the master agreement are referred to hereinafter collectively as the “Transactions”). Among other things, as part of the Transactions, we intend to assume, and Host LP and certain of its subsidiaries will offer to fully and unconditionally guarantee, the 7^{3/8}% debentures due November 15, 2015 and the 7^{3/4}% debentures due November 15, 2025 of SHC (such indebtedness is referred to hereinafter as the “SHC Indebtedness” and such guarantees are referred to hereinafter as the “SHC Guarantees”).

Financial Risks and Risks of Operation

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

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

We have substantial leverage.

As of September 9, 2005, we and our subsidiaries had total indebtedness of approximately \$5.5 billion. If the Transactions are completed, we will have greater indebtedness after the assumption of the SHC Indebtedness and the offering of the SHC Guarantees. In connection with the Transactions, we also intend to incur substantial indebtedness, including the assumption of the SHC Indebtedness and the offering the SHC Guarantees, the assumption of additional mortgage debt and borrowings under a new bridge loan facility. On September 9, 2005, as adjusted to give effect to the Transactions and the additional indebtedness incurred in connection therewith, we and our subsidiaries would have had total indebtedness of approximately \$7.3 billion (of which approximately \$3.7 billion would have consisted of senior notes, approximately \$2.0 billion would have been secured by mortgage liens on various of our hotel properties with related assets, and the balance would have consisted of other debt).

Our substantial indebtedness has important consequences. It currently requires us to dedicate a substantial portion of our cash flow from operations to payments of principal and interest on our indebtedness, which reduces the availability of our cash flow to fund working capital, capital expenditures, expansion efforts, distributions to our partners and other general purposes. Additionally, it could:

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

Because HMC must distribute most of its taxable income in order to maintain its qualification as a REIT, we depend upon external sources of capital for future growth. If our cash flow and working capital were not sufficient to fund our expenditures or service our indebtedness, we would have to raise additional funds through:

- sales of HMC's equity;
- the incurrence of additional permitted indebtedness by Host LP; or
- the sale of our assets.

We cannot assure you that any of these sources of funds would be available to us or, if available, would be on terms that we would find acceptable or in amounts sufficient for us to meet our obligations or fulfill our business plan.

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

The lodging industry experienced a down-turn from 2001 to 2003, and operations generally declined during this period. The decline was attributed to a number of factors including a weak economy, the effect of terrorist attacks, terror alerts in the United States and the war in Iraq, all of which changed the travel patterns of both business and leisure travelers. While our operations have improved in 2004 and 2005, we cannot provide assurance that changes in travel patterns of both business and leisure travelers are permanent or whether they will continue to evolve creating new opportunities or difficulties for the industry. Any forecast we make regarding our results of operations may be affected and can change based on the following risks:

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

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

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

Our expenses may not decrease if our revenue drops.

Many of the expenses associated with owning and operating hotels, such as debt payments, property taxes, insurance, utilities, and employee wages and benefits, are

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

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

Currently, 33 of our hotels are subject to third party ground leases (encumbering all or a portion of the hotel). These ground leases generally require increases in ground rent payments every five years. Our ability to service our debt could be adversely affected to the extent that our revenues do not increase at the same or a greater rate than the increases in rental payments under the ground leases. In addition, if we were to sell a hotel encumbered by a ground lease, the buyer would have to assume the ground lease, which may result in a lower sales price.

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

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

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

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

- acquisitions, mergers and consolidations;
- the incurrence of additional debt;
- the creation of liens;
- the sale of assets;
- capital expenditures;
- raising capital;
- the payment of dividends; and
- transactions with affiliates.

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

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

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

For example, beginning in the third quarter of 2002 and continuing through the fiscal quarter ended March 26, 2004, Host LP was prohibited from making distributions (other than in the amounts required to permit HMC to pay dividends necessary to maintain REIT qualification) because our consolidated EBITDA-to-interest coverage ratio as calculated under the indenture governing our senior notes (which measures the ratio of

pro forma consolidated EBITDA to pro forma consolidated interest expense) was below 2.0 to 1.0. Accordingly, during this period, Host LP was only able to make distributions to HMC, and HMC was only able to pay dividends, to the extent that we had taxable income and were required to make distributions to maintain HMC's status as a REIT. While our EBITDA-to-interest coverage ratio is currently above 2.0 to 1.0 and as a result we may make distributions in excess of permitted REIT distributions to the extent that we continue to satisfy this and other indenture covenant requirements, a decline in our operations could once again limit the amount of distributions that Host LP could make, and HMC's ability to pay dividends, either because our EBITDA-to-interest coverage ratio again falls below 2.0 to 1.0 or because we fail to meet other financial covenant tests or meet other requirements in our credit facility or senior notes indenture.

We intend, during any future period in which Host LP is unable to make restricted payments under the applicable indenture(s) and under similar restrictions under the credit facility, that Host LP will continue its practice of distributing quarterly, based on our estimates of taxable income for any year, an amount of available cash sufficient to enable HMC to pay quarterly dividends on its preferred and common stock in an amount necessary to satisfy the requirements applicable to REITs under the Code. In the event that Host LP makes distributions to HMC in amounts in excess of those necessary for HMC to maintain its status as a REIT, we will be in default under the indenture terms governing all but the SHC Guarantees and our outstanding Series O, Series K and Series M senior notes. A default under any series of our existing senior notes could lead to a default under the SHC Guarantees and Series O, Series K and Series M senior notes.

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

Under the terms of each of our outstanding classes of preferred stock, we are not permitted to pay dividends on our common stock unless cumulative dividends have been paid (or funds for payment have been set aside for payment) on each such class of preferred stock. The amount of aggregate dividends that accrue on our outstanding classes of preferred stock each quarter is approximately \$6 million.

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

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

Foreclosure on our mortgage debt could adversely affect our business.

Twenty-six of our hotels and assets related thereto are subject to various mortgages in an aggregate amount of approximately \$1.9 billion. Although the debt is generally non-recourse to us, if these hotels do not produce adequate cash flow to service the debt secured by such mortgages, the mortgage lenders could foreclose on these assets. We may opt to allow such foreclosure rather than make the necessary mortgage payments with funds from other sources. However, our senior notes indenture and credit facility contain cross default provisions, which, depending upon the amount of secured debt on which we could default, could cause a cross default under both of these agreements. Our credit facility, which contains the more restrictive cross default provision as compared to our senior notes indenture, provides that it is a credit facility default in the event we default on non-recourse secured indebtedness in excess of 1% of our total assets (using undepreciated real estate values) or default on other indebtedness in excess of \$50 million. For this and other reasons, permitting a foreclosure could adversely affect our long-term business prospects.

Our mortgage debt contains provisions that may reduce our liquidity.

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

Rating agency downgrades may increase our cost of capital.

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

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

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

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

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

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

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

Applicable REIT laws may restrict certain business activities.

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

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

We depend on our key personnel.

Our success depends on the efforts of our executive officers and other key personnel. None of our key personnel have employment agreements and we do not maintain key person life insurance for any of our executive officers. We cannot assure you that these

key personnel will remain employed by us. While we believe that we could find replacements for these key personnel, the loss of their services could have a significant adverse effect on our financial performance.

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

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

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

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

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

Instead of purchasing hotel properties directly, we may invest as a co-venturer in entities holding hotel properties. Indeed, we are exploring the possibility of funding part of the cash portion of the purchase price for the Transactions with proceeds from a joint venture related to the European assets to be acquired. Co-venturers often share control over the operation of a joint venture. Actions by a co-venturer could subject the assets to additional risk, including:

- our co-venturer in an investment might have economic or business interests or goals that are inconsistent with ours, or the joint venture's, interests or goals;

- our co-venturer may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or
- our co-venturer could go bankrupt, leaving us liable for its share of joint venture liabilities.

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

Environmental problems are possible and can be costly.

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

Compliance with other government regulations can be costly.

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

Some potential losses are not covered by insurance.

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

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

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

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

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

Risks of Ownership of HMC’s Common Stock

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

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

- **Restrictions on ownership and transfer of HMC’s stock.** To maintain HMC’s qualification as a REIT for federal income tax purposes, not more than 50% in value of HMC’s outstanding shares of capital stock may be owned in the last half of the taxable year, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code to include some entities. In addition, a person who owns, directly or by attribution, 10% or more of an interest in a Host lessee, or a Host lessee of any partnership in which we are a partner, cannot own, directly or by attribution, 10% or more of HMC’s shares without jeopardizing HMC’s qualification as a REIT. Unless exempted by HMC’s Board of Directors,

HMC's charter prohibits ownership, directly or by virtue of the attribution provisions of the Internal Revenue Code, by any person or persons acting as a group, of more than 9.8% in value or number, whichever is more restrictive, of shares of HMC's outstanding common stock, preferred stock or any other stock, each considered as a separate class or series for this purpose. Together, these limitations are referred to as the "ownership limit."

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

- **Removal of board of directors.** HMC's charter provides that, except for any directors who may be elected by holders of a class or series of shares of capital stock other than common stock, directors may be removed only for cause and only by the affirmative vote of stockholders holding at least two-thirds of all the votes entitled to be cast for the election of directors. Vacancies on the Board of Directors may be filled by the concurring vote of a majority of the remaining directors (except that a vacancy resulting from an increase in the number of directors must be filled by a majority vote of the entire Board of Directors) and, in the case of a vacancy resulting from the removal of a director by the stockholders, by at least two-thirds of all the votes entitled to be cast in the election of directors.
- **Preferred shares; classification or reclassification of unissued shares of capital stock without stockholder approval.** HMC's charter provides that the total number of shares of stock of all classes that we have authority to issue is 800,000,000, initially consisting of 750,000,000 shares of common stock and 50,000,000 shares of preferred stock. The Board of Directors has the authority, without a vote of stockholders, to classify or reclassify any unissued shares of stock, including common stock into preferred stock or vice versa, and to establish the preferences and rights of any preferred or other class or series of shares to be issued. Because the Board of Directors has the power to establish the preferences and rights of additional classes or series of stock without a stockholder vote, HMC's Board of Directors may give the holders of any class or series of stock preferences, powers and rights, including voting rights, senior to the rights of holders of existing stock.

- **Consent rights of the limited partners.** Under the partnership agreement of Host LP, we generally will be able to merge or consolidate with another entity with the consent of partners holding limited partner ownership interests that are more than 50% of the aggregate ownership interests of the outstanding limited partnership interests entitled to vote on the merger or consolidation, including any limited partnership interests held by us, as long as the holders of limited partnership interests either receive or have the right to receive the same consideration as HMC's stockholders. HMC, as holder of a majority of the limited partnership interests of Host LP, would be able to control the vote. Under HMC's charter, holders of at least two-thirds of HMC's outstanding shares of common stock generally must approve a merger or consolidation.
- **Maryland business combination law.** Under the Maryland General Corporation Law, specified "business combinations," including specified issuances of equity securities, between a Maryland corporation and any person who owns 10% or more of the voting power of the corporation's then outstanding shares, or an affiliate or associate of the corporation who at any time during the two year period prior to the date in question owned 10% or more of the voting power of the outstanding stock of the corporation (each, an "interested stockholder"), or an affiliate of the interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any of these specified business combinations must be approved by 80% of the votes entitled to be cast by the holders of outstanding voting shares and by two-thirds of the votes entitled to be cast by the holders of voting shares other than voting shares held by an interested stockholder unless, among other conditions, the corporation's common stockholders receive a minimum price, as defined in the Maryland General Corporation Law, for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder. HMC is subject to the Maryland business combination statute.
- **Maryland control share acquisition law.** Under the Maryland General Corporation Law, "control shares" acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by directors who are employees of the corporation. "Control shares" are voting shares which, if aggregated with all other voting shares previously acquired by the acquiror or over which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of

the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority or (3) a majority or more of the voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A “control share acquisition” means the acquisition of control shares, subject to specified exceptions. HMC is subject to these control share provisions of Maryland law.

- **Merger, consolidation, share exchange and transfer of HMC’s assets.** Pursuant to HMC’s charter, subject to the terms of any outstanding class or series of capital stock, we can merge with or into another entity, consolidate with one or more other entities, participate in a share exchange or transfer HMC’s assets within the meaning of the Maryland General Corporation Law if approved (1) by HMC’s Board of Directors in the manner provided in the Maryland General Corporation Law and (2) by HMC’s stockholders holding two-thirds of all the votes entitled to be cast on the matter, except that any merger of us with or into a trust organized for the purpose of changing HMC’s form of organization from a corporation to a trust requires only the approval of HMC’s stockholders holding a majority of all votes entitled to be cast on the merger. Under the Maryland General Corporation Law, specified mergers may be approved without a vote of stockholders and a share exchange is only required to be approved by a Maryland corporation by its board of directors if the corporation is the successor. HMC’s voluntary dissolution also would require approval of stockholders holding two-thirds of all the votes entitled to be cast on the matter.
- **Certain charter and bylaw amendments.** HMC’s charter contains provisions relating to restrictions on transferability of HMC’s stock, fixing the size of the Board of Directors within the range set forth in the charter, removal of directors and the filling of vacancies, all of which may be amended only by a resolution adopted by the Board of Directors and approved by HMC’s stockholders holding two-thirds of the votes entitled to be cast on the matter. Any amendments of these provisions of the charter (setting forth the necessary approval requirements) also would require action of the Board of Directors and the approval by stockholders holding two-thirds of all the votes entitled to be cast on the matter. As permitted under the Maryland General Corporation Law, HMC’s bylaws provide that directors have the exclusive right to amend HMC’s bylaws. These provisions may make it more difficult to amend HMC’s charter and bylaws to alter the provisions described herein that could delay, defer or prevent a transaction or a change in control or the acquisition of HMC common stock, without the approval of the Board of Directors.
- **Stockholder rights plan.** We adopted a stockholder rights plan which provides, among other things, that when specified events occur, HMC’s stockholders, other than an acquiring person, will be entitled to purchase

from us a newly created class or series of junior preferred stock, subject to HMC's ownership limits described above. The preferred stock purchase rights are triggered by the earlier to occur of (1) ten days after the date of a public announcement that a person or group acting in concert has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of HMC's outstanding shares of common stock or (2) ten business days after the commencement of or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the acquiring person becoming the beneficial owner of 20% or more of HMC's outstanding common stock. The exercise of the preferred share purchase rights would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by HMC's Board of Directors.

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

Sales of a substantial number of shares of HMC's common stock, or the perception that sales could occur, could adversely affect prevailing market prices for HMC's common stock. In addition, holders of units of limited partnership interest in Host LP, whose OP units may be redeemed, at our election, in exchange for common stock, will be able to sell those shares freely, unless the person is our affiliate and resale of the affiliate's shares is not covered by an effective registration statement. Further, a substantial number of shares of HMC's common stock have been and will be issued or reserved for issuance from time to time under our employee benefit plans, including shares of common stock reserved for options, or pursuant to securities we may issue that are convertible into shares of HMC common stock or securities (other than OP units) that Host LP has issued that are exchangeable for shares of our common stock. As of September 19, 2005, (i) there are approximately 20 million OP units outstanding that are redeemable, (ii) there are outstanding \$500 million aggregate principal amount of 3.25% Exchangeable Senior Debentures of Host LP exchangeable under certain conditions for shares of HMC common stock at an exchange price equivalent to \$18.05 per share for a total of approximately 28 million shares (subject to adjustment for various reasons, including as a result of the payment of dividends to common stockholders), and (iii) there are outstanding \$492 million of 6³/₄% convertible preferred securities issued by the Host Marriott REIT Financial Trust that are convertible into shares of HMC common stock at a conversion price equivalent to \$15.367 per share for a total of approximately 31 million shares. Moreover, additional shares of common stock issued by HMC would be available in the future for sale in the public markets. We can make no prediction about the effect that future sales of common stock would have on the market price of HMC common stock.

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

We believe that the market value of a REIT's equity securities is based primarily upon the market's perception of the REIT's growth potential and its current and potential

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

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

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

Federal Income Tax Risks

To qualify as a REIT, HMC is required (and each of its subsidiary REITs will be required) to distribute at least 90% of its taxable income, irrespective of its available cash or outstanding obligations.

To continue to qualify as a REIT, HMC is required to distribute to its stockholders with respect to each year at least 90% of its taxable income, excluding net capital gain. To the extent that HMC satisfies this distribution requirement but distributes less than 100% of its taxable income and net capital gain for the taxable year, it will be subject to federal corporate income tax on its undistributed taxable income and capital gain. In addition, HMC will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by it with respect to the calendar year are less than the sum of 85% of its ordinary income and 95% of its capital gain net income for that year and any undistributed taxable income from prior periods less excess distributions from prior years. HMC intends to make distributions, subject to the availability of cash and in compliance with any debt covenants, to its stockholders to comply with the distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from Host LP and its subsidiaries. However, there are differences in timing between HMC's recognition of taxable income and its receipt of cash available for distribution due to, among other things, the seasonality of the lodging industry and the fact that some taxable income will be "phantom" income, which is taxable income that is not matched by corresponding cash flow. Due to some transactions entered into in years prior to HMC's conversion to a REIT, HMC could recognize substantial amounts of "phantom" income. It is possible that these differences between taxable income and the receipt of related cash could require HMC to borrow funds or to issue additional equity to enable HMC to meet the distribution requirement and, therefore, to maintain its REIT status, and

to avoid the nondeductible excise tax. In addition, because the REIT distribution requirement prevents HMC from retaining earnings, HMC will generally be required to refinance debt at its maturity with additional debt or equity. It is possible that any of these sources of funds, if available at all, would not be sufficient to meet HMC's distribution and tax obligations.

If the Transactions are completed, HMC will own, through Host LP, 100% of the outstanding common stock (but not the outstanding preferred stock) of SHC and six other entities that will elect to be treated as REITs. Each of these subsidiary REITs of HMC will be subject to the same requirements that HMC must satisfy in order to qualify as a REIT and the other rules applicable to REITs, including the distribution requirements described above.

Adverse tax consequences would apply if HMC or any of its subsidiary REITs failed to qualify as a REIT.

We believe that HMC has been organized and has operated in such a manner so as to qualify as a REIT under the Internal Revenue Code, commencing with its taxable year beginning January 1, 1999, and HMC currently intends to continue to operate as a REIT during future years. In addition, if the Transactions are completed as expected, as described above, HMC will own, through Host LP, seven subsidiary REITs. As the requirements for qualification and taxation as a REIT are extremely complex and interpretations of the federal income tax laws governing qualification and taxation as a REIT are limited, no assurance can be provided that HMC currently qualifies as a REIT or will continue to qualify as a REIT or that each of HMC's subsidiary REITs will qualify as a REIT following its REIT election. If any of the subsidiary REITs were to fail to qualify as a REIT, it is possible that HMC itself would fail to qualify as a REIT unless it (or the subsidiary REIT) could avail itself of certain relief provisions. New legislation, treasury regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to an entity's qualification as a REIT or the federal income tax consequences of its REIT qualification. If HMC or any of the subsidiary REITs were to fail to qualify as a REIT, and any available relief provisions did not apply, the non-qualifying REIT would not be allowed to take a deduction for distributions to its stockholders in computing its taxable income, and it would be subject to federal and state corporate income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Moreover, unless entitled to statutory relief, the non-qualifying REIT could not qualify as a REIT for the four taxable years following the year during which REIT qualification is lost.

Any determination that HMC or one of its subsidiary REITs does not qualify as a REIT would have a materially adverse effect on our results of operations and could reduce the value of HMC's common stock materially. The additional tax liability of HMC or the subsidiary REIT for the year, or years, in which the relevant entity did not qualify as a REIT would reduce our net earnings available for investment, debt service or distributions to stockholders. Furthermore, the non-qualifying entity would no longer be required to make any distributions to stockholders as a condition to REIT qualification.

and all of its distributions to stockholders would be taxable as regular C corporation dividends to the extent of its current and accumulated earnings and profits. This means, if HMC were to fail to qualify as a REIT, that HMC's stockholders currently taxed as individuals would be taxed on those dividends at capital gain rates and its corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject in each case, to applicable limitations under the Internal Revenue Code. HMC's failure to qualify as a REIT also would cause an event of default under Host OP's credit facility that could lead to an acceleration of the amounts due under the credit facility, which, in turn, would constitute an event of default under Host OP's outstanding debt securities.

If our leases are not respected as true leases for federal income tax purposes, HMC and each of its subsidiary REITs would fail to qualify as a REIT.

To qualify as a REIT, HMC must satisfy two gross income tests, under which specified percentages of its gross income must be passive income, like rent. For the rent paid pursuant to HMC's leases, which currently constitutes (and is expected to constitute, following the closing transactions) substantially all of its gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. HMC believes that the leases will be respected as true leases for federal income tax purposes. There can be no assurance, however, that the IRS will agree with this view. If the leases were not respected as true leases for federal income tax purposes, HMC would not be able to satisfy either of the two gross income tests applicable to REITs and it would most likely lose its REIT status.

If the Transactions are completed as contemplated and HMC acquires the interests in the subsidiary REITs described above, each such subsidiary REIT would also fail to satisfy either of the two gross income tests if the leases were not respected as true leases and would most likely lose its REIT status.

If HMC's affiliated lessees fail to qualify as taxable REIT subsidiaries, HMC and each of its subsidiary REITs would fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of HMC will not be qualifying income for purposes of the two gross income tests applicable to REITs. As a result of changes in the Internal Revenue Code, since January 1, 2001, HMC has leased substantially all of its hotels to a subsidiary of Host LP that is taxable as a regular C corporation and that has elected to be treated as a taxable REIT subsidiary with respect to HMC. Should the Transactions be consummated as expected, each of the hotels acquired from Starwood and Starwood Trust will be leased to either a taxable REIT subsidiary of HMC or a taxable REIT subsidiary of a subsidiary REIT. So long as any affiliated lessee qualifies as a taxable REIT subsidiary, it will not be treated as a "related party tenant." HMC believes that its affiliated lessees have qualified and will continue to qualify, and that the taxable REIT subsidiaries of its subsidiary REITs will qualify, to be treated as taxable REIT subsidiaries for federal income tax purposes. There can be no assurance,

however, that the IRS will not challenge the status of a taxable REIT subsidiary for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of HMC's affiliated lessees (including the taxable REIT subsidiaries of its subsidiary REITs) from treatment as a taxable REIT subsidiary, it is possible that HMC or a subsidiary REIT would fail to meet the asset tests applicable to REITs and substantially all of its income would fail to qualify for the gross income tests. If this occurred, HMC and/or the applicable subsidiary REIT would cease to qualify as a REIT.

Despite HMC's REIT status, we remain subject to various taxes.

HMC or one of its subsidiary REITs will be required to pay federal income tax at the highest regular corporate rate upon its share of any "built-in gain" recognized as a result of any sale before the expiration of the applicable 10-year holding period of assets, including certain hotels, acquired as part of HMC's conversion to a REIT or from Starwood and Starwood Trust as part of the closing transactions. The total amount of gain on which HMC would be subject to corporate income tax if these built-in gain assets were sold in a taxable transaction prior to the expiration of the applicable 10-year holding period would be material to HMC. In addition, HMC expects that it could recognize other substantial deferred tax liabilities in the future without any corresponding receipt of cash.

Notwithstanding HMC's status as a REIT, HMC and its subsidiaries (including HMC's subsidiary REITs) will be subject to some federal, state, local and foreign taxes on their income and property. For example, HMC and its subsidiary REITs will pay tax on certain types of income that is not distributed and will be subject to a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arm's length basis. Moreover, the taxable REIT subsidiaries of HMC and its subsidiary REITs are taxable as regular C corporations and will pay federal, state and local income tax on their net income at the applicable corporate rates, and foreign taxes to the extent they own assets or conduct operations in foreign jurisdictions.

Host LP is obligated under its partnership agreement to pay all such taxes (and any related interest and penalties) incurred by HMC.

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

HMC believes that Host LP qualifies to be treated as a partnership for federal income tax purposes. As a partnership, it is not subject to federal income tax on its income. Instead, each of its partners, including HMC, is required to pay tax on such partner's allocable share of its income. No assurance can be provided, however, that the IRS will not challenge Host LP's status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating Host LP as a corporation for federal income tax purposes, HMC would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, cease to

qualify as a REIT. If Host LP fails to qualify as a partnership for federal income tax purposes or HMC fails to qualify as a REIT, either failure would cause an event of default under Host LP's credit facility that, in turn, could constitute an event of default under Host LP's outstanding debt securities. Also, the failure of Host LP to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including HMC.

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

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

HMC or its subsidiary REITs may be required to pay a penalty tax upon the sale of a hotel.

The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% penalty tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. We intend that we will hold the hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make occasional sales of hotels as are consistent with our investment objectives. There can be no assurance, however, that the IRS might not contend that one or more of these sales is subject to the 100% penalty tax.

MATERIAL FEDERAL INCOME TAX CONSIDERATIONS**Introduction**

The following discussion describes the federal income tax considerations reasonably anticipated to be material to prospective holders in connection with the purchase, ownership and disposition of the stock of Host Marriott Corporation, or “Host.” An applicable prospectus supplement will contain information about additional federal income tax considerations, if any, relating to particular offerings of common stock, preferred stock, depositary shares, warrants, subscription rights, preferred stock purchase rights or other securities of Host. Because this is a summary that is intended to address only material federal income tax considerations relating to the ownership and disposition of Host’s stock, it may not contain all the information that may be important to you. As you review this discussion, you should keep in mind that:

- the tax consequences for you may vary depending on your particular tax situation;
- special rules that are not discussed below may apply to you if, for example, you are:
 - a tax-exempt organization,
 - a broker-dealer,
 - a non-U.S. person,
 - a trust, estate, regulated investment company, real estate investment trust, financial institution, insurance company or S corporation,
 - subject to the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended (the “Code”),
 - holding Host’s stock as part of a hedge, straddle, conversion or other risk-reduction or constructive sale transaction,
 - holding Host’s stock through a partnership or similar pass-through entity,
 - a person with a “functional currency” other than the U.S. dollar,
 - a U.S. expatriate, or
 - otherwise subject to special tax treatment under the Code;
- this summary does not address state, local or non-U.S. tax considerations;

- this summary deals only with investors that hold the Host stock as a “capital asset,” within the meaning of Section 1221 of the Code; and
- this discussion is not intended to be, and should not be construed as, tax advice.

The information in this section is based on the Code, current, temporary and proposed Treasury Regulations, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (the “IRS”), and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies, as endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, Treasury Regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. Host has not received any rulings from the IRS concerning its qualification as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

On November 14, 2005, Host and Host Marriott, L.P., or “Host LP,” announced their entry into a master agreement and plan of merger, or “master agreement,” with Starwood Hotels and Resorts Worldwide, Inc., or “Starwood,” Starwood Hotels & Resorts, or “Starwood Trust,” Sheraton Holding Corporation, or “SHC,” and the other entities named therein, pertaining to Host’s acquisition from Starwood and Starwood Trust of certain entities and assets that collectively own 25 domestic and 13 international hotels (the transactions described in the master agreement are referred to hereinafter collectively as the “Transactions”). Certain of the material federal income tax considerations described herein depend on the consummation of the Transactions and will not apply should the Transactions not be consummated at all and may not apply should the Transactions be consummated in a manner other than what is currently contemplated by the master agreement.

You are urged both to review the following discussion and to consult with your own tax advisor to determine the impact of your personal tax situation on the anticipated tax consequences of the ownership and sale of Host’s stock. This includes the federal, state, local, foreign and other tax consequences of the ownership and sale of Host’s stock and the potential changes in applicable tax laws, or any judicial or administrative interpretations thereof.

Federal Income Taxation of Host

General

Host is a self-managed and self-administered real estate investment trust, or REIT, owning full service hotel properties. Host conducts its business as an umbrella partnership REIT, through Host OP, of which Host is the sole general partner and in which it currently holds approximately 95% of the partnership interests.

Host made an election to be taxed as a REIT under the Code, effective for the taxable year beginning January 1, 1999. Host believes that it is organized and has operated in a manner that has permitted it to qualify as a REIT since 1999, and Host currently intends to continue to operate as a REIT for future years.

Host's qualification and taxation as a REIT depend upon Host's ability to meet, on a continuing basis, through actual annual (or, in some cases, quarterly) operating results, the various requirements under the Code, as described in this discussion, with regard to, among other things, the sources of Host's gross income, the composition and values of its assets, its distribution levels, and the diversity of ownership of Host's stock. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations, and the possibility of future changes in Host's circumstances, no assurance can be given by Host that it will satisfy such requirements. For a discussion of the federal income tax consequences of the failure to qualify as a REIT, see "—Failure to Qualify as a REIT" below.

The sections of the 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 qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

Regular corporations (corporations that do not qualify as REITs or for other special classification under the Code) generally are subject to federal corporate income taxation on their income, and stockholders of regular corporations are subject to tax on dividends that are received. In any taxable year in which Host qualifies for taxation as a REIT, it generally will not be subject to federal corporate income tax on its federal taxable income that is distributed currently to its stockholders as dividends. Stockholders generally will be subject to taxation on dividends that they receive (other than dividends designated as "capital gain dividends" or "qualified dividend income") at rates applicable to ordinary income. Qualification for taxation as a REIT enables the REIT and its stockholders to substantially eliminate the "double taxation" (that is, taxation at both the corporate and stockholder levels) that generally results from an investment in a regular corporation. Currently, however, stockholders of regular domestic corporations and certain types of foreign corporations who are taxed at individual rates generally are taxed on dividends they receive at long-term capital gain rates, which are lower for individuals than ordinary income rates. In addition, stockholders of regular corporations who are taxed at regular corporate rates receive the benefit of a dividends received deduction that substantially reduces the effective rate that they pay on such dividends. Nevertheless, income earned by a REIT and distributed currently to its stockholders generally will be subject to lower aggregate rates of federal income taxation than if such income were earned by a regular domestic corporation or a qualifying foreign corporation, subjected to corporate income tax, and then distributed to stockholders and subjected to tax either at long-term capital gain rates or the effective rate paid by a corporate recipient entitled to the benefit of the dividends received deduction.

While Host generally will not be subject to corporate income taxes on taxable income that it distributes currently to stockholders, Host will be subject to federal income tax as follows:

1. Host will be taxed at regular corporate rates on any undistributed "REIT taxable income." 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 (or its stockholders) may be subject to the "alternative minimum tax" due to its items of alternative minimum tax adjustments.
3. If Host 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. In general, foreclosure property is property acquired by Host as a result of having bid in a foreclosure or through other legal means after there was a default on a lease of such property or on an indebtedness secured by such property.
4. Host'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, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.
5. If Host fails to satisfy the 75% gross income test or the 95% gross income test described below under "—Income Tests Applicable to REITs," but nonetheless maintains its qualification as a REIT because certain other requirements are met, it will be subject to a tax equal to the product of (a) the gross income attributable to the greater of the amount by which Host fails either of the 75% or 95% gross income tests multiplied by (b) a fraction intended to reflect its profitability.
6. If Host fails to distribute during each calendar year at least the sum of (a) 85% of its REIT ordinary income for such year, (b) 95% of its REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods less excess distributions from prior periods, Host will be subject to a 4% nondeductible 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 arrangements between Host and its taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties, Host will be subject to a 100% penalty tax on amounts received from, or on certain amounts deducted by, a taxable REIT subsidiary.
8. Host may elect to retain and pay income tax on its net long-term capital gain. In that case, a U.S. stockholder would (a) include its proportionate share of Host's undistributed long-term capital gain (to the extent Host makes a timely designation of such gain to the stockholder) in its income, (b) be deemed to have paid the tax that Host paid on such gain, (c) be allowed a credit for its proportionate share of the tax deemed to have been paid, and (d) increase its basis in Host's stock.
9. If Host fails to satisfy any of the asset tests discussed below under "—Asset Tests Applicable to REITs" because it owns assets the total value of which exceeds a statutory de minimis standard but the failure is due to reasonable cause and Host nonetheless maintains its qualification as a REIT because other requirements are met, Host will be subject to a tax equal to the greater of \$50,000 or the amount determined by multiplying the net income generated by such nonqualifying assets by the highest rate of tax applicable to corporations during the periods when such assets would have caused Host to fail the relevant asset test.
10. If Host fails to satisfy a requirement under the Code the failure of which would result in the loss of its REIT status, other than a failure described in paragraph 5 or 9 above, but the failure is due to reasonable cause and Host nonetheless maintains its qualification as a REIT because the requirements of certain relief provisions are satisfied, Host will be subject to a penalty of \$50,000 for each such failure due to reasonable cause and not willful neglect.
11. If Host fails to comply with the requirement to send annual letters to its stockholders requesting information regarding the actual ownership of its stock and the failure was not due to reasonable cause or was due to willful neglect, Host will be subject to a \$25,000 penalty or, if the failure is intentional, a \$50,000 penalty.
12. If Host acquires any assets from a regular corporation in a carry-over basis transaction, it will be liable for corporate income tax, at the highest applicable corporate rate, on the "built-in gain" with respect to those assets at the time Host acquired them if it disposes of those assets within 10 years after acquiring them (provided no election is made for the transaction to be currently taxable). To the extent that assets are transferred to Host in a carry-over basis transaction by a partnership in which a corporation owns an interest, Host will be subject to this tax in proportion to the corporation's interest in the partnership. "Built-in gain" is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time Host acquired the asset.

If Host is subject to taxation on its REIT taxable income or is subject to tax due to the sale of a built-in gain asset that was acquired in a carry-over basis transaction from a regular corporation, a portion of the dividends paid during the following year to its stockholders who are taxed as individuals may be subject to tax at reduced long-term capital gain rates rather than at ordinary income rates. See “Taxation of Taxable U.S. Stockholders – Qualified Dividend Income.”

Host owns an indirect interest in appreciated assets that its predecessors held before Host converted to a REIT effective January 1, 1999. Such appreciated assets have a “carryover” basis and, thus, have built-in gain with respect to Host. The applicable 10-year holding period for these assets will expire at the close of business on December 31, 2008. In connection with the Transactions, Host will acquire all of the stock of SHC, which will own, directly and indirectly, certain hotel properties. Effective as of the time of that acquisition, Host will cause SHC, which has been taxed as a C corporation prior to the acquisition, to elect to qualify as a REIT. All of the assets held by SHC on the effective date of its REIT election will be built-in gain assets as to SHC, with a 10-year holding period that begins on the closing date of the Transactions. In addition, Host will acquire in the REIT merger and the related transactions two “built-in gain” assets that currently are owned by subsidiary REITs of Starwood Trust (which assets Host intends to transfer to and hold indirectly through SHC). The 10-year holding period for these built-in gain assets is expected to expire in 2008 (although, if any of the Starwood Trust subsidiary REITs were not to qualify as a REIT at the time of the Transactions, the 10-year holding period applicable to the assets acquired from that subsidiary REIT then would begin at the time SHC acquires indirect ownership of these assets following the consummation of the Transactions). If any of the appreciated property currently owned by Host or to be owned by SHC following the consummation of the Transactions is sold prior to the expiration of the applicable 10-year holding period, Host (or, in the case of the built-in gain assets acquired in connection with the Transactions, SHC) generally will be subject to regular U.S. corporation income tax on that gain to the extent of the built-in gain in that property at the time the relevant asset was acquired. The total amount of gain on which Host or SHC can be taxed is limited to the excess of the aggregate fair market value of its assets on the date of acquisition over the adjusted tax bases of those assets at that time. This tax could be very material. As a result, Host OP and Host might decide to seek to avoid a taxable disposition of any significant “built-in gain” asset prior to the end of the relevant 10-year holding period. This could be true with respect to a particular disposition even though the disposition might otherwise be in the best interests of Host and its stockholders. On the other hand, neither Host nor Host OP is obligated to avoid such dispositions.

Host expects that it could recognize substantial deferred tax liabilities in the future. Deferred tax liabilities include, but are not limited to, tax liabilities attributable to built-in gain assets and tax liabilities attributable to taxable income for which neither Host nor Host OP will receive corresponding cash. In addition, notwithstanding Host’s status as a

REIT, (i) Host and/or its subsidiaries that are not subject to federal income tax (including the REIT subsidiaries owned through Host OP, see “—Ownership of Subsidiary REITs” below) may have to pay certain state and local income taxes, because not all states and localities treat REITs and such subsidiaries in the same manner that they are treated for federal income tax purposes, and (ii) Host and its subsidiaries that are not subject to federal income tax will have to pay certain foreign taxes to the extent that Host owns assets or conducts operations in foreign jurisdictions. Host OP will acquire indirectly a number of foreign hotels in the Transactions. Moreover, each of Host’s domestic taxable REIT subsidiaries (as further described below) is subject to federal, state and local corporate income taxes on its net income, while each of Host’s non-U.S. taxable REIT subsidiaries will be subject to certain foreign corporate-level income taxes.

Under the terms of Host OP’s partnership agreement, Host OP is responsible for paying, or reimbursing Host for the payment of certain tax liabilities. Specifically, Host OP will pay, or reimburse Host for the payment of, all taxes (and any interest and penalties associated therewith) incurred by Host, except for taxes imposed on Host 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 gain. The reimbursed taxes would include any taxes on built-in gains required to be recognized by Host, as described above.

Ownership of Subsidiary REITs

Following the Transactions, Host will own, through Host OP, 100% of the outstanding common stock (but none of the outstanding preferred stock) of SHC and six business trusts that will elect to be treated as REITs. Following the consummation of the Transactions and certain restructuring actions taken by Host, SHC will own nine domestic and foreign hotels and other assets. The other six subsidiary REITs will own one or more of the foreign hotels to be acquired from Starwood in the Transactions.

As REITs, each subsidiary REIT will be subject to the various REIT qualification requirements and other limitations described herein that are applicable to Host. Host believes that each such REIT will be organized and will operate in a manner to permit it to qualify for taxation as a REIT for federal income tax purposes from and after the effective date of its REIT election. However, if any of these subsidiary REITs were to fail to qualify as a REIT, then (i) the subsidiary REIT would become subject to regular U.S. corporation income tax, as described herein, see “—Failure to Qualify as a REIT” below, and (ii) Host’s stock interests in such subsidiary REIT would cease to be qualifying real estate assets for purposes of the 75% gross asset test and would become subject to the 5% asset test, the 10% voting stock asset test, and the 10% value asset test generally applicable to Host’s ownership in corporations (other than REITs, qualified REIT subsidiaries and taxable REIT subsidiaries). See “—Asset Tests Applicable to REITs” below. If any of the subsidiary REITs were to fail to qualify as a REIT, it is possible that Host would not meet the 10% voting stock test and the 10% value test with respect to its indirect interest in such REIT, in which event Host itself would fail to qualify as a REIT unless it could avail itself of certain relief provisions. Host may make

a “protective” taxable REIT subsidiary election with respect to each subsidiary REIT and implement other protective arrangements intended to avoid such an outcome if any of the subsidiary REITs were not to qualify as a REIT, but there can be no assurance that such “protective” elections and other arrangements will be effective to avoid the resulting adverse consequences to Host. Moreover, even if Host were to make an effective “protective” taxable REIT subsidiary election with respect to each subsidiary REIT, because of the significant value attributable to the subsidiary REITs in the aggregate, and even to SHC alone, there could be no assurance that the failure of any one or more subsidiary REITs to qualify as a REIT would not in any event cause Host to fail to satisfy the requirement that not more than 20% of the value of Host’s total assets may be represented by the securities of one or more taxable REIT subsidiaries. In this event, Host itself would fail to qualify as a REIT unless it (or the applicable subsidiary REIT) could avail itself of certain relief provisions.

Requirements for Qualification

The Code defines a REIT as a corporation, trust or association:

- (1) that 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) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code;
- (4) that is neither a financial institution nor an insurance company subject to certain provisions of the 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 Code to include certain entities);
- (7) that makes an election to be taxable as a REIT for the current taxable year, or has made this election for a previous taxable year, which election has not been revoked or terminated, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status;
- (8) that uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the Code and regulations promulgated thereunder; and

(9) that meets other applicable tests, described below, regarding the nature of its income and assets and the amount of its distributions.

Conditions (1) through (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.

For purposes of determining stock ownership under condition (6) above, a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. However, a trust that is a qualified trust under Code Section 401(a) generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actuarial interests in the trust for purposes of condition (6) above.

Host believes that it meets and currently intends to continue to meet conditions (1) through (4), (7), (8) and (9). In addition, Host believes that it has had and currently intends to continue to have outstanding stock with sufficient diversity of ownership to allow it to satisfy conditions (5) and (6). With respect to condition (6), Host has complied and currently intends to continue to comply with the requirement that it send annual letters to its stockholders requesting information regarding the actual ownership of its shares of stock. In addition, Host's charter contains an ownership limit that is intended to assist Host with continuing to satisfy the stock 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 will, in all cases, be able to satisfy the stock ownership requirements described above. If Host fails to satisfy such stock ownership requirements and cannot avail itself of any statutory relief provisions, Host will not qualify as a REIT. See "—Failure to Qualify as a REIT" below.

Distribution of "Earnings and Profits" Attributable to Non-REIT Taxable Years

To qualify as a REIT, a REIT cannot have at the end of any taxable year any undistributed earnings and profits that are attributable to a non-REIT taxable year ("undistributed E&P"). Host believes that it currently has no undistributed E&P. Pursuant to the Transactions, however, Host will acquire all of the stock of SHC, which, as discussed above, is a regular C corporation that will elect to be treated as a REIT. Host currently expects, based upon representations of Starwood set forth in the master agreement and other information, that, as of the time the SHC election to be treated as a REIT becomes effective, SHC will not have any undistributed E&P, except that under the terms of the master agreement, one or more foreign entities to be owned by Host through SHC or one or more of Host's other subsidiary REITs may have up to an aggregate of \$50 million of undistributed E&P. In addition, Host currently expects that, following the Transactions and certain restructuring transactions undertaken by Host, SHC will own two subsidiaries that formerly were REITs owned through the closing of the Transactions by Starwood Trust, and which will have indirectly been acquired by Host OP as part of

the Transactions. If either of these Starwood Trust subsidiary REITs were to fail to qualify as a REIT at the time of the Transactions, then SHC also could have undistributed E&P as a result of its ownership of these entities.

For purposes of determining whether a REIT has undistributed E&P, distributions made for the purpose of eliminating E&P shall be treated as made from E&P that would, but for the distribution, have resulted in a failure to meet the requirement that the REIT have no undistributed E&P attributable to a non-REIT taxable year.

If the IRS were to determine that SHC or one of the other subsidiary REITs had undistributed E&P following the Transactions and the relevant REIT did not distribute the undistributed E&P by the end of the taxable year for which its REIT election was effective (i.e., 2006), the REIT could avoid disqualification as a REIT by using “deficiency dividend” procedures, described below in “—Annual Distribution Requirements Applicable to REITs,” to distribute the undistributed E&P. The deficiency dividend procedures would require the relevant REIT to make a distribution to stockholders (primarily Host), in addition to the regularly required REIT distributions, within 90 days of the IRS determination. In addition, the REIT would have to pay to the IRS interest on the undistributed E&P that was not distributed prior to the end of 2006. In general, pursuant to the tax sharing and indemnification agreement, Starwood has agreed to indemnify Host for certain interest payments that would be required to be made and for certain deficiency dividends that Host or any of its subsidiary REITs would have to pay to eliminate undistributed E&P in excess of \$50 million associated with the foreign entities acquired from Starwood in the Transactions. Host intends to cause SHC and, if necessary, one or more of its other subsidiary REITs to make distributions by the end of the 2006 taxable year that Host believes will be sufficient to distribute all of the undistributed E&P, if any. However, there are uncertainties relating to the estimate of the undistributed E&P that may be acquired as part of the Transactions, and, accordingly, there can be no assurance this requirement will be met.

Similar principles would apply to any future acquisition transactions in which either Host or any of its subsidiary REITs succeeds to the earnings and profits of a regular C corporation.

Qualified REIT Subsidiaries

If a REIT owns a corporate subsidiary that is a “qualified REIT subsidiary,” the separate existence of 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 tax 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 and that is not a taxable REIT subsidiary. Host holds several qualified REIT subsidiaries that hold indirect interests in the partnerships that own hotels. These entities are not subject to federal corporate income taxation, although they may be subject to state and local taxation in certain jurisdictions.

Taxable REIT Subsidiaries

A “taxable REIT subsidiary” of Host is an entity that is taxable as a corporation in which Host owns an equity interest, including stock, directly or indirectly; and that elects together with Host, to be treated as a taxable REIT subsidiary under the Code. In addition, if a taxable REIT subsidiary of Host owns, directly or indirectly, securities representing more than 35% of the vote or value of a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary of Host. A taxable REIT subsidiary is a corporation subject to federal income tax, and state, local or foreign income tax where applicable, as a regular C corporation. If dividends are paid by one or more of Host’s taxable REIT subsidiaries to Host, then a portion of the dividends from Host to its stockholders who are taxed at individual rates will generally be eligible for taxation at lower capital gain rates, rather than at ordinary income rates. See “Taxation of U.S. Stockholders – Qualified Dividend Income.” The income and assets of Host’s taxable REIT subsidiaries are not attributable to it for purposes of satisfying the income and asset ownership requirements applicable to REIT qualification. If the Transactions are consummated as expected, Host’s REIT subsidiaries will themselves own interests, directly or indirectly, in taxable REIT subsidiaries.

A taxable REIT subsidiary must not directly or indirectly operate or manage a lodging or health care facility or, generally, provide to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. Although a taxable REIT subsidiary may not operate or manage a lodging facility, it may lease or own such a facility so long as the facility is a “qualified lodging facility” and is operated on behalf of the taxable REIT subsidiary by an “eligible independent contractor.” A “qualified lodging facility” is, generally, a hotel or motel at which no authorized gambling activities are conducted, and includes the customary amenities and facilities operated as part of, or associated with, the hotel or motel. “Customary amenities” must be customary for other properties of a comparable size and class owned by other owners unrelated to Host. An “eligible independent contractor” is an independent contractor that, at the time a management agreement is entered into with a taxable REIT subsidiary to operate a “qualified lodging facility,” is actively engaged in the trade or business of operating “qualified lodging facilities” for a person or persons unrelated to either the taxable REIT subsidiary or any REITs with which the taxable REIT subsidiary is affiliated. A hotel management company that otherwise would qualify as an “eligible independent contractor” with regard to a taxable REIT subsidiary of Host will not so qualify if the hotel management company and/or one or more actual or constructive owners of 10% or more of the hotel management company actually or constructively own more than 35% of Host, or one or more actual or constructive owners of more than 35% of the hotel management company own 35% or more of Host (determined by taking into account only the stock held by persons owning, directly or indirectly, more than 5% of the outstanding stock of Host and, if the stock of the eligible independent contractor is publicly-traded, 5% of the publicly-traded stock of the eligible independent contractor). Host believes, and currently intends to take all steps reasonably practicable to ensure, that none of its taxable REIT subsidiaries or any of their subsidiaries will engage in “operating” or “managing” its hotels and that the hotel

management companies engaged to operate and manage hotels leased to or owned by its taxable REIT subsidiaries qualify as “eligible independent contractors” with regard to those taxable REIT subsidiaries.

Certain restrictions are imposed on taxable REIT subsidiaries. First, a taxable REIT subsidiary may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed, generally, 50% of the taxable REIT subsidiary’s adjusted taxable income for that year (although the taxable REIT subsidiary may carry forward to, and deduct in, a succeeding year the disallowed interest expense amount if the 50% test is satisfied). In addition, Host would be obligated to pay a 100% penalty tax on some payments from the taxable REIT subsidiary that it receives, including interest or rent, or on certain expenses deducted by the taxable REIT subsidiary, if the IRS were able to assert successfully that the economic arrangements between the REIT and the taxable REIT subsidiary did not meet specified standards set forth in the Code. Host’s taxable REIT subsidiaries make substantial interest and other payments to Host, including payments of rent under the hotel leases. There can be no assurance that the limitation on interest deductions applicable to taxable REIT subsidiaries will not apply to the interest payments made to Host by its taxable REIT subsidiaries, resulting in an increase in the corporate income tax liability of each such subsidiary. In addition, there can be no assurance that the IRS might not seek to impose the 100% excise tax on a portion of the payments received by Host from, or expenses deducted by, its taxable REIT subsidiaries. To the extent that one of Host’s taxable REIT subsidiaries pays dividends to Host in a particular calendar year, a portion of the dividends paid by Host to stockholders who are taxed at individual rates will generally be subject to taxation at reduced capital gain rates, rather than at ordinary income rates. See “Taxation of Taxable U.S. Stockholders – Qualified Dividend Income.”

Because of the restrictions applicable to the income, assets and activities of a REIT, Host may need to conduct certain business activities in one or more of its taxable REIT subsidiaries. These business activities include alternative uses of real estate, such as the development and/or sale of timeshare or condominium units. Host’s taxable REIT subsidiaries are taxable as regular C corporations and are subject to federal, state, and, if applicable, local and foreign taxation on their income at applicable corporate income tax rates. As discussed below under “—Asset Tests Applicable to REITs,” the aggregate value of all of Host’s taxable REIT subsidiaries may not exceed 20% of the value of all of its assets.

Ownership of Partnership Interests by a REIT

A REIT that 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 retains the same character in the hands of the REIT for purposes of the gross income tests and the asset tests applicable to REITs, as described below. Thus, Host’s proportionate share of the assets and items of gross income of Host OP, including Host OP’s share of such items of any subsidiaries that are partnerships or

limited liability companies that have not elected to be treated as corporations for federal income tax purposes, are treated as assets and items of gross income of Host 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 Host’s Ownership of Interests in Host OP.” As the sole general partner of Host OP, Host has direct control over Host OP and indirect control over the subsidiaries in which Host OP or a subsidiary has a controlling interest. Host currently intends to operate these entities in a manner consistent with the requirements for qualification of Host as a REIT.

Income Tests Applicable to REITs

In order to maintain qualification as a REIT, Host must satisfy the following two gross income tests on an annual basis:

- At least 75% of Host’s gross income, excluding gross income from “prohibited transactions,” must be derived directly or indirectly from investments relating to real property or mortgages on real property, including “rents from real property,” gain on the disposition of real estate, dividends paid by another REIT and interest on obligations secured by mortgages on real property or on interests in real property, or from some types of temporary investments.
- At least 95% of Host’s gross income, excluding gross income from “prohibited transactions,” must be derived from any combination of income qualifying under the 75% test, dividends, interest, and gain from the sale or disposition of stock or securities.

Rents from Real Property. Currently, rents paid pursuant to Host’s leases, together with gain on the disposition of assets and dividends and interest received from Host’s taxable REIT subsidiaries and REIT subsidiaries, constitute, and, following the Transactions, such sources are expected to constitute, substantially all of the gross income of Host. Several conditions must be satisfied in order for rents received by Host, 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. 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, or an actual or constructive owner of 10% or more of Host, actually or constructively owns 10% or more of the tenant. Beginning with Host’s 2001 taxable year, the Code has permitted Host to lease its hotel properties to a taxable REIT subsidiary without the rents received from that subsidiary being disqualified as “rents from real property” by reason of Host’s direct or indirect ownership interest in the subsidiary. Substantially all of Host’s properties currently are, and, following the Transactions, will be, leased to taxable REIT subsidiaries.

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.”

Fourth, if Host operates or manages a property or furnishes or renders certain “impermissible services” to the tenants at the property, and the income derived from the services exceeds one percent of the total amount received by Host with respect to the property, then no amount received by Host with respect to the property will qualify as “rents from real property.” Impermissible services are services other than services “usually or customarily rendered” in connection with the rental of real property and not otherwise considered “rendered to the occupant.” For these purposes, the income that Host is considered to receive from the provision of “impermissible services” will not be less than 150% of the cost of providing the service. If the amount so received is one percent or less of the total amount received by Host with respect to the property, then only the income from the impermissible services will not qualify as “rents from real property.” There are two exceptions to this rule. First, impermissible services can be provided to tenants through an independent contractor from whom Host derives no income. To the extent that impermissible services are provided by an independent contractor, the cost of the services generally must be borne by the independent contractor. Second, impermissible services can be provided to tenants at a property by a taxable REIT subsidiary.

In order for the rent paid pursuant to Host’s leases to constitute “rents from real property,” the leases must be respected as true leases for federal income tax purposes. Accordingly the leases cannot be treated as service contracts, joint ventures or some other type of arrangement. The determination of whether the leases are true leases for federal income tax purposes 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 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.

Host'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 OP 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 OP, the applicable subsidiary or other lessor entity against all liabilities imposed on Host OP, the applicable subsidiary or the other lessor 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 and Host OP believe that each lessee reasonably expected, at the times the leases were entered into and subsequently renewed or extended, 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 OP, the applicable subsidiary or other lessor entity 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 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 discussed above, a lessee of Host that is not a taxable REIT subsidiary must not be regarded as a related party tenant of Host. A lessee of Host will be regarded as a related party tenant only if Host and/or one or more actual or constructive owners of 10% or more of Host actually or constructively own 10% or more of such lessee. In order to help preclude Host’s lessees from being regarded as related party tenants, the following organizational documents contain these ownership limits:

- Host’s 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 the shares of stock of Host (subject to a limited exception for a holder of shares of capital stock of Host in excess of the ownership limit solely by reason of the merger of Host’s predecessor corporation into Host, which exception applied to the extent that the holder thereof did not own, directly or by attribution under the Code, more than 9.9% in value of the outstanding shares of capital stock of Host as a result of the merger) or any other class or series of shares of stock of Host; and
- Host OP’s partnership agreement expressly prohibits any person, or persons acting as a group, or entity, other than Host and an affiliate of The Blackstone Group and a series of related funds controlled by Blackstone Real Estate Partners, from owning more than 4.9% by value of any class of interests of Host OP.

Each of the prohibitions described above contains self-executing enforcement mechanisms. Assuming that these prohibitions are enforced at all times (subject to any waivers permitted under the operative documents), the lessees of Host that are not taxable REIT subsidiaries 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.

As indicated above, “rents from real property” must not be based in whole or in part on the income or profits of any person. Except with regard to the Harbor Beach Lease and any other leases that Host acknowledges will not qualify as producing “rent from real property” under the Code, each of Host’s leases provides for periodic payments of a specified base rent plus, to the extent that it exceeds the base rent, additional rent which is calculated based upon the gross sales of the hotels subject to the lease, plus certain other amounts. Payments made pursuant to Host’s leases should qualify as “rents from real property” since they are generally based on either fixed dollar amounts or on specified percentages of gross sales fixed at the time the leases were entered into. The foregoing assumes that the leases have not been and will not be 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 has not and currently 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 believes that the rental provisions and other terms of the leases conform with normal business practice and generally were not intended to be used as a means of basing rent on income or profits. Furthermore, Host currently 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 leases certain items of personal property to its lessees in connection with its leases. Under the 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 no portion of the rent that is attributable to personal property will qualify as “rents from real property.” The amount of rent attributable to personal property is the amount which bears the same ratio to total rent for the taxable year as the average of the fair market value of the personal property at the beginning and end of the year bears to the average of the aggregate fair market value of both the real and personal property at the beginning and end of such year. Host believes that, with respect to each of its leases that includes a lease of items of personal property, either the amount

of rent attributable to personal property with respect to such lease will not exceed 15% of the total rent due under the lease (determined under the law in effect for the applicable period), or, with respect to leases where the rent attributable to personal property constitutes nonqualifying income, such amounts, when taken together with all other nonqualifying income earned by Host, will not jeopardize Host's status as a REIT.

Each lease permits Host OP 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 taxable REIT subsidiary, if necessary to ensure that all of the rent attributable to personal property with respect to such lease will qualify as "rents from real property." Substantial personal property associated with certain of the hotels to be acquired from Starwood pursuant to the master agreement will be owned by one or more taxable REIT subsidiaries of Host. Host expects that the only material tax impact of the ownership of this personal property by the taxable REIT subsidiaries is that it will reduce the rent payments from the taxable REIT subsidiaries to Host OP.

Income from Foreclosure Property. If Host acquires real property and personal property incident to such property through a foreclosure or similar process following a default on a lease of such property or a default on indebtedness owed to Host that is secured by the property, and if Host makes a timely election to treat such property as "foreclosure property" under applicable provisions of the Code, net income Host realizes from such property generally will be subject to tax at the maximum federal corporate income tax rate, regardless of whether Host distributes such income to its stockholders currently. However, such income will nonetheless qualify for purposes of the 75% and 95% gross income tests even if it would not otherwise be qualifying income for such purposes in the absence of the foreclosure property election. If an unrelated third party lessee defaults under a lease, Host OP is permitted to lease the hotel to a taxable REIT subsidiary, in which case the hotel would not become foreclosure property, as described herein.

Interest. "Interest" generally will be nonqualifying income for purposes of the 75% and 95% gross income tests if it depends in whole or in part on the income or profits of any person. However, interest based upon a fixed percentage or percentages of receipts or sales may still qualify under the 75% and 95% gross income tests. Host has received and expects to receive in the future interest payments from its taxable REIT subsidiaries and may receive such payments from its REIT subsidiaries. These amounts of interest are qualifying income for purposes of the 95% gross income test but not the 75% gross income test. Host does not anticipate that the amounts of interest derived from its taxable REIT subsidiaries and its REIT subsidiaries will affect its ability to continue to satisfy the 75% gross income test.

Dividends. Host also receives dividends from its taxable REIT subsidiaries, and it could realize capital gain with respect to its investments in its taxable REIT subsidiaries (either due to distributions received from those subsidiaries or upon a disposition of part or all of its interest in a taxable REIT subsidiary). Host's share of any dividends received from one or more of its taxable REIT subsidiaries or capital gain recognized with respect thereto should qualify for purposes of the 95% gross income test but not for purposes of

the 75% gross income test. Host does not anticipate that the amounts of dividends from its taxable REIT subsidiaries and/or capital gain with respect to its taxable REIT subsidiaries will affect its ability to continue to satisfy the 75% gross income test. Dividends from, and gain from the sale of its interests in, any of Host's REIT subsidiaries will qualify for purposes of both the 75% and the 95% gross income tests.

Hedging Transactions. From time to time, Host may enter into transactions to hedge against interest rate risks or value fluctuations associated with one or more of its assets or liabilities. Host's hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, futures and forward contracts and other financial instruments. To the extent that Host enters into a transaction in the normal course of its business primarily to manage the risk of interest rate changes, price changes or currency fluctuations with respect to indebtedness incurred or to be incurred by Host to acquire or carry real estate assets, any income or gain from the hedging transaction will be excluded from gross income solely for purposes of the 95% gross income test, provided that Host clearly and timely identifies such hedging transaction in the manner required under the Code and the Treasury Regulations promulgated thereunder. Host believes that it has structured its past hedging transactions, and intends to structure any future hedging transactions, in a manner that does not jeopardize its status as a REIT, although this determination depends on an analysis of the facts and circumstances concerning each hedging transaction.

Temporary Investment Income. For purposes of the gross income tests, temporary investment income generally constitutes qualifying income if such income is earned as a result of investing new capital raised through the issuance of Host's stock or certain long-term debt obligations in stock and debt obligations during the one-year period beginning on the date Host receives the new capital.

Failure to Satisfy the Income Tests. Host inevitably will have some gross income from various sources, including the sources described in the preceding paragraphs, that fails to constitute qualifying income for purposes of one or both of the gross income tests. Taking into account its actual and anticipated sources of nonqualifying income, however, Host believes that its aggregate gross income from all sources has satisfied, and Host currently intends that its aggregate gross income will continue to satisfy, the 75% and 95% gross income tests applicable to REITs for each taxable year commencing on or after January 1, 1999.

If Host were to fail 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 were entitled to relief under certain provisions of the Code. These relief provisions generally would be available if Host's failure to meet such tests were due to reasonable cause and not due to willful neglect, and, following identification of the failure, Host filed with the IRS a schedule describing each item of its gross income qualifying under one or more of the gross income tests. It is not possible, however, to state whether in all circumstances Host would be entitled to the benefit of these relief provisions. If these relief provisions were inapplicable to a particular set of circumstances involving Host, it would not qualify as a REIT. As discussed above under "—General," even if these relief provisions were to apply, a tax based on the amount of Host's nonqualifying income would be imposed.

Prohibited Transactions Tax. Any gain realized by Host 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's share of any such gain realized by Host OP or any other subsidiary partnership, will be treated as income from a "prohibited transaction" that is subject to a 100% penalty tax. 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. However, Host will not be treated as a dealer in real property for the purpose of the 100% penalty tax if (i) Host has held the property for at least four years for the production of rental income, (ii) capitalized expenditures on the property in the four years preceding sale are less than 30% of the net selling price of the property, and (iii) Host either (a) has seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale or (b) the aggregate tax basis of property sold during the year of sale is 10% or less of the aggregate tax basis of all of Host's assets as of the beginning of the taxable year and substantially all of the marketing and development expenditures with respect to the property sold are made through an independent contractor from whom Host derives no income. The sale of more than one property to one buyer as part of one transaction constitutes one sale.

Host currently 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 sales of hotels as are consistent with Host's investment objectives. However, some of Host's sales may not satisfy the "safe harbor" requirements described above and there can be no assurance that the IRS might not contend that one or more of these sales is subject to the 100% penalty tax.

Asset Tests Applicable to REITs

At the close of each quarter of Host's taxable year, it must satisfy six tests relating to the nature of its assets, as follows:

- (1) At least 75% of the value of Host's total assets must be represented by "real estate assets," cash, cash items, and government securities. Real estate assets include mortgages secured by real estate assets, shares of other REITs, and stock or debt instruments held for less than one year purchased with the proceeds of an offering of shares or long-term debt.
- (2) Not more than 25% of Host's total assets may be represented by securities, other than those in the 75% asset class.
- (3) Except for securities described in (1) above and securities of taxable REIT subsidiaries, the value of any one issuer's securities owned by Host may not exceed 5% of the value of its total assets.

- (4) Except for securities described in (1) above and securities of taxable REIT subsidiaries, Host may not own more than 10% of any one issuer's outstanding voting securities.
- (5) Except for securities described in (1) above, securities of taxable REIT subsidiaries, and certain types of indebtedness that are not treated as securities for purposes of this test, as discussed below, Host may not own more than 10% of the total value of the outstanding securities of any one issuer.
- (6) Not more than 20% of the value of Host's total assets may be represented by the securities of one or more taxable REIT subsidiaries.

Host's assets for purposes of these tests include its allocable share of all assets held by the entities in which it owns an interest that are partnerships or disregarded entities for federal income tax purposes, and the subsidiaries of these entities that are partnerships or disregarded entities for federal income tax purposes, and generally do not include the equity interests in these entities. For purposes of the asset tests other than the 10% value test, an allocable share of the assets of an entity that is treated as a partnership for federal income tax purposes is determined in accordance with the capital interests in that entity. For purposes of the 10% value test, an allocable share of the assets of an entity that is treated as a partnership for federal income tax purposes is determined in accordance with Host's proportionate ownership of the equity interests and the other securities issued by that entity, other than certain securities specified in the Code.

Securities, for purposes of the asset tests, may include debt Host holds from other issuers. However, the Code specifically provides that the following types of debt will not be taken into account as securities for purposes of the 10% value test: (1) securities that meet the "straight debt" safe harbor, as discussed in the next paragraph; (2) loans to individuals or estates; (3) obligations to pay rents from real property; (4) rental agreements described in Section 467 of the Code (other than such agreements with related party tenants); (5) securities issued by other REITs; (6) debt issued by partnerships that derive at least 75% of their gross income from sources that constitute qualifying income for purposes of the 75% gross income test; (7) any debt not otherwise described in this paragraph that is issued by a partnership, but only to the extent of Host's interest as a partner in the partnership; (8) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (9) any other arrangement determined by the IRS.

Debt will meet the "straight debt" safe harbor if (1) neither Host nor any of its controlled taxable REIT subsidiaries (i.e., taxable REIT subsidiaries in which Host directly or indirectly owns more than 50% of the vote or value of the outstanding stock) owns any securities not described in the preceding paragraph that have an aggregate value greater than one percent of the issuer's outstanding securities, as calculated under the Code, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt

are not contingent on the profits, the borrower's discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of qualifying as a straight debt security if either (1) such contingency does not have the effect of changing the effective yield to maturity, as determined under the Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (2) neither the aggregate issue price nor the aggregate face amount of the issuer's debt instruments held by the REIT exceeds \$1,000,000 and not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as "straight debt" solely because the time or amount of payment is subject to a contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

Neither Host, Host OP, nor any of the non-corporate subsidiaries of Host OP has owned or currently intends to own, as of each relevant testing date, more than 10% of (i) the voting securities of any entity that is treated as a corporation for federal income tax purposes, except for securities described in paragraph (1) above (including stock of its subsidiary REITs) and, with regard to periods beginning after December 31, 2000, corporations or other entities that qualify and elect to be treated as taxable REIT subsidiaries or (ii) the value of the securities of any issuer with respect to periods beginning after December 31, 2000, except for securities described in paragraph (1) above or those of its taxable REIT subsidiaries. In addition, Host believes that the value of the securities of any one issuer owned by Host, Host OP, or any of the non-corporate subsidiaries of Host OP has not exceeded 5% of the total value of Host's assets for prior years, unless the issuer was a taxable REIT subsidiary, and Host currently intends not to exceed that percentage threshold in subsequent years unless the issuer is a taxable REIT subsidiary or the securities are described in paragraph (1) above (including the securities of its subsidiary REITs). Host believes that the aggregate value of its securities of its taxable REIT subsidiaries has not exceeded, and currently intends that such aggregate value will not exceed, 20% of the value of its total assets, and that the aggregate value of its securities of its taxable REIT subsidiaries, together with all other assets that do not qualify for purposes of the 75% asset test, does not exceed 25% of the total value of its assets. There can be no assurance, however, that the IRS might not contend that the value of any of the securities owned by Host has exceeded on a relevant testing date one or more of the value limitations.

After initially meeting the asset tests at the close of any quarter, Host 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 the relative values of its assets. 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 the 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's interest in Host OP as a result of the exercise of a limited partner's redemption right relating to units in Host OP ("OP Units") or an additional capital contribution of proceeds from an offering of capital stock by Host.

Furthermore, the failure to satisfy the asset tests can be remedied even after the 30-day cure period. If the total value of the assets that caused a failure of the 5% test, the 10% voting securities test or the 10% value test does not exceed either 1% of Host's assets at the end of the relevant quarter or \$10,000,000, Host can cure such a failure by disposing of sufficient assets to cure such a violation within six months following the last day of the quarter in which Host first identifies the failure of the asset test. For a violation of any of the asset tests attributable to the ownership of assets the total value of which exceeds the amount described in the preceding sentence, Host can avoid disqualification as a REIT if the violation is due to reasonable cause and Host disposes of an amount of assets sufficient to cure such violation within the six-month period described in the preceding sentence, pays a tax equal to the greater of \$50,000 or the highest corporate income tax rate multiplied by the net income generated by the nonqualifying assets during the period of time that the assets were held as nonqualifying assets, and files a schedule with the IRS that describes the assets. The applicable Treasury Regulations have yet to be issued. Thus, it is not possible to state with precision under what circumstances Host would be entitled to the benefit of these provisions.

Host has monitored and currently intends to continue to monitor its compliance with the asset tests and to take such actions within 30 days after the close of any quarter, to the extent reasonably practicable, as may be required to cure any noncompliance. If Host fails to cure noncompliance with the asset tests within such time period, Host would cease to qualify as a REIT unless it could avail itself of available relief provisions.

Annual Distribution Requirements Applicable to REITs

To qualify as a REIT, Host 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) 90% of its "REIT taxable income," computed without regard to the dividends paid deduction and Host's net capital gain, and (b) 90% of the net income, after tax, if any, from foreclosure property, minus
- (ii) the sum of certain items of noncash income.

Dividend distributions generally must be paid in the taxable year to which they relate. Dividends may be paid in the following taxable year in two circumstances. First, dividends may be paid in the following taxable year if declared before Host timely files its tax return for such year and if paid on or before the first regular dividend payment date after such declaration. Second, if Host declares a dividend in October, November or December of any year with a record date in one of those months and pays the dividend on or before January 31 of the following year, Host will be treated as having paid the dividend on December 31 of the year in which the dividend was declared. Host currently intends to make timely distributions sufficient to satisfy these annual distribution requirements. In this regard, Host OP's partnership agreement authorizes Host, as general partner, to take such steps as may be necessary to cause Host OP to distribute to its partners an amount sufficient to permit Host to meet these distribution requirements.

To the extent that Host does not distribute all of its net capital gain or distributes at least 90%, but less than 100%, of its REIT taxable income within the periods described in the prior paragraph, it is subject to income tax thereon at regular capital gain and ordinary corporate income tax rates.

There is a possibility that Host's REIT taxable income could exceed its cash flow, due in part to certain non-cash or "phantom" income that would be taken into account in computing Host's REIT taxable income. It is possible, because of these differences in timing between Host's recognition of taxable income and its receipt of cash available for distribution, that Host, from time to time, may not have sufficient cash or other liquid assets to meet its distribution requirements. In this event, in order to meet the distribution requirements, Host 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 calculates its REIT taxable income based upon the conclusion that, except for its hotels owned through subsidiary REITs, the non-corporate subsidiaries of Host OP or Host OP itself, as applicable, is the owner of the hotels for federal income tax purposes. As a result, Host expects that the depreciation deductions with respect to the hotels owned through Host OP or its non-corporate subsidiaries will reduce Host's REIT taxable income (and that the depreciation deductions with respect to the hotels owned through its subsidiary REITs will reduce the REIT taxable income of those entities). This conclusion is consistent with the conclusion above that the leases of Host's hotels have been and will continue to be treated as true leases for federal income tax purposes. If, however, 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 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 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's deduction for dividends paid for the earlier year. Thus, Host may be able to avoid being taxed on amounts distributed as deficiency dividends; however, Host would be required to pay to the IRS interest based upon the amount of any deduction taken for deficiency dividends.

Host would be subject to a nondeductible 4% excise tax on any excess of the required distribution over the sum of amounts actually distributed and amounts retained on which federal income tax was paid, if Host did not distribute during each calendar year at least the excess of the sum of:

- (1) 85% of its REIT ordinary income for the year;
- (2) 95% of its REIT capital gain net income for the year; and
- (3) any undistributed taxable income from prior taxable years, over excess distributions from prior years.

A REIT may elect to retain rather than distribute all or a portion of its net capital gain and pay the tax on such gain. In that case, a REIT may elect to have its stockholders include their proportionate share of the undistributed net capital gain in income as long-term capital gain and receive a credit for their share of the tax paid by the REIT. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed and recontributed.

Recordkeeping Requirements

Host is required to comply with applicable recordkeeping requirements. Failure to comply could result in monetary fines.

Failure to Qualify as a REIT

If Host does not comply with one or more of the conditions required for qualification as a REIT (other than the asset tests and the income tests that have the specific mitigation clauses discussed above in “Federal Income Taxation of Host—Asset Tests Applicable to REITs” and “—Income Tests Applicable to REITs”), Host can avoid disqualification of its REIT status by paying a penalty of \$50,000 for each such failure, provided that its noncompliance was due to reasonable cause and not willful neglect. If Host were to fail to qualify for taxation as a REIT in any taxable year, and if the statutory relief provisions were not to apply, Host would be subject to corporate income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Distributions to stockholders in any year in which Host were to fail to qualify as a REIT would not be deductible by Host nor would such distributions be required to be made. As a result, Host’s failure to qualify as a REIT would significantly reduce the cash available for distribution by Host to its stockholders and could materially reduce the value of its capital stock. In addition, if Host were to fail to qualify as a REIT, all distributions to stockholders would be taxable as dividends, to the extent of Host’s current and accumulated E&P, whether or not attributable to capital gain of Host. Subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction with respect to these distributions and individual distributees may be eligible for the reduced long-term capital gain rate of 15% or less on such dividends. Unless entitled to relief under specific statutory provisions, Host also would 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 would be entitled to such statutory relief.

Tax Aspects of Host’s Ownership of Interests of Host OP

General

Substantially all of Host’s investments are held indirectly through Host OP, which holds the hotels either directly or through certain subsidiaries (including, following the Transactions, through subsidiaries that will elect to be treated as REITs for federal income tax purposes). This discussion focuses on the tax aspects of Host’s ownership of its hotel properties through partnerships. 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 includes in its gross 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 gross asset tests, Host includes its proportionate share of gross assets held through Host OP and those of its subsidiaries that are either disregarded as separate entities or treated as partnerships for federal income tax purposes. See “—Federal Income Taxation of Host—Ownership of Partnership Interests by a REIT” above.

Entity Classification

If Host OP or any non-corporate subsidiary were treated as an association, the entity would be taxable as a corporation and therefore would be subject to federal and state income tax on its taxable income. In such a situation, the character of Host’s assets and items of gross income would change and could preclude Host from qualifying as a REIT (see “—Federal Income Taxation of Host—Asset Tests Applicable to REITs” and “—Income Tests Applicable to REITs” above).

The entire discussion of the tax treatment of Host and the federal income tax consequences of the ownership of the stock of Host is based on the assumption that Host OP and all of its subsidiaries (other than Host’s taxable REIT subsidiaries and its REIT subsidiaries) are classified as partnerships or disregarded as separate entities for federal income tax purposes. Pursuant to Treasury Regulations under Section 7701 of the 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 OP nor any of its non-corporate subsidiaries that is not a taxable REIT subsidiary has elected or will elect to be treated as a corporation. Therefore, subject to the disclosure below, Host OP and each such subsidiary will be treated as a partnership for federal income tax purposes (or, if such an entity has only one partner or member, disregarded entirely for federal income tax purposes).

Pursuant to Section 7704 of the Code, 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” and it does not derive at least 90% of its gross income from certain specified sources 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.” OP Units will not be traded on an established securities market. There is a significant risk, however, that the OP Units could be considered readily tradable on the substantial equivalent of a secondary market. In that event, Host OP could be treated as a “publicly traded partnership,” but even then it would only be taxable as a corporation if less than 90% of its gross income were to constitute “qualifying income.” Treasury Regulations

under Section 7704 of the Code set forth certain “safe harbors” under which interests will not be treated as “readily tradable on a secondary market (or the substantial equivalent thereof)” within the meaning of Section 7704 of the Code (the “Safe Harbors”).

“Qualifying income,” for purposes of the “qualifying income” exception, is generally real property rents and other types of passive income. Host believes that Host OP has had and will continue to have sufficient qualifying gross income so that it would be taxed as a partnership even if it were a publicly traded partnership. The gross income requirements applicable to Host in order for it to qualify as a REIT under the Code and the definition of qualifying income under the publicly traded partnership rules are very similar. Although differences exist between these two income tests, Host does not believe that these differences would cause Host OP not to satisfy the 90% gross income test applicable to publicly traded partnerships.

If Host OP were taxable as a corporation, most, if not all, of the tax consequences described herein would be inapplicable. In particular, Host would not qualify as a REIT because the value of Host’s ownership interest in Host OP would exceed 5% of Host’s assets and Host would be considered to hold more than 10% of the voting securities (and 10% of the value of the outstanding securities) of another corporation (see “—Federal Income Taxation of Host—Asset Tests Applicable to REITs” above). In this event, the value of Host’s stock could be adversely affected (see “—Federal Income Taxation of Host—Failure to Qualify as a REIT” above).

Except with regard to the exercise of the right to redeem OP Units and certain “permitted transfers” (generally among related individuals or entities) under the partnership agreement of Host OP, no limited partner may transfer OP Units without the prior written consent of Host, as general partner of Host OP, which consent may be withheld in the general partner’s sole discretion. The partnership agreement of Host OP provides that Host shall take such actions, if any, that are reasonably necessary or appropriate to prevent Host OP from being classified as a publicly traded partnership and, except as provided otherwise in the partnership agreement, to permit Host OP to insure that at least one of the Safe Harbors is met. Host may exercise its authority, as general partner, under the partnership agreement to impose limitations on the exercise of the right to redeem OP Units only to the extent that outside tax counsel provides to Host an opinion to the effect that, in the absence of such limitation or restriction, there is a significant risk that Host OP will be treated as a publicly traded partnership and, by reason thereof, taxable as a corporation. These limitations, if imposed, could adversely affect the interests of holders of OP Units.

Allocations of Host OP Income, Gain, Loss and Deduction

A partnership agreement will generally determine the allocation of income and loss among partners. However, such allocations will be disregarded for federal income tax purposes if they do not comply with the provisions of Section 704(b) of the Code and the regulations promulgated thereunder. Generally, Section 704(b) of the Code and the regulations promulgated thereunder 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 Host OP's 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 Code and the regulations promulgated thereunder.

Tax Allocations with Respect to the Hotels

Pursuant to Section 704(c) of the 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. This difference is known as built-in gain or built-in loss. Host OP's partnership agreement requires that such allocations be made in a manner consistent with Section 704(c) of the Code. In general, the partners of Host OP, including Host, who contributed appreciated assets having built-in gain are allocated depreciation deductions for federal income 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 OP may cause Host to be allocated lower depreciation and other deductions, and therefore to be effectively allocated more income, which might adversely affect Host's ability to comply with the REIT distribution requirements and/or cause a higher proportion of Host's distributions to its stockholders to be taxed as dividends. See "*—Federal Income Taxation of Host—Annual Distribution Requirements Applicable to REITs*" above.

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 OP, rather than distributed. Thus, if Host OP were to sell a hotel with built-in gain that was contributed to Host OP by Host's predecessors or Host, Host 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 to recognize taxable income in excess of cash proceeds, which might adversely affect Host's ability to comply with the REIT distribution requirements. In addition, Host will be subject to a corporate level tax on such gain to the extent the gain is recognized prior to January 1, 2009. See "*—Federal Income Taxation of Host—Annual Distribution Requirements Applicable to REITs*" and "*—Federal Income Taxation of Host—General*" above. It should be noted that, as the general partner of Host OP, Host will determine whether or not to sell a hotel contributed to Host OP by Host.

Host OP and Host 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 OP 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, who received OP Units in exchange for property with a low adjusted tax basis relative to fair market 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 OP, including Host to the extent it contributes cash to Host OP.

Any property purchased by Host OP will initially have an adjusted tax basis equal to its fair market value, and Section 704(c) of the Code will not apply.

Other Tax Consequences for Host and Its Stockholders

Host and its stockholders are subject to state or local taxation in various state or local jurisdictions, including those in which Host OP or Host’s stockholders transact business or reside. The state and local tax treatment of Host and its stockholders may not conform to the federal income tax consequences discussed above. Consequently, prospective stockholders of Host should consult their own tax advisors regarding the effect of state and local tax laws on an investment in Host. To the extent that Host owns assets or conducts operations in foreign jurisdictions, it or its subsidiaries will also be subject to certain foreign taxes. Host will acquire a number of foreign hotels from Starwood in the Transactions. Although Host and its affiliates will seek to reduce the foreign income taxes payable on the operations of these non-U.S. hotels, there inevitably will be some foreign income tax payable and the amounts of those taxes could be significant.

A portion of the cash to be used by Host to fund distributions comes from interest on notes held by Host OP and, in some cases, dividends from the taxable REIT subsidiaries. The taxable REIT subsidiaries, and certain of their subsidiaries, are subject to federal, state and local income tax at the full applicable corporate rates (and foreign taxes to the extent that they own assets or have operations in foreign jurisdictions). To the extent that any of Host’s taxable REIT subsidiaries or any of their subsidiaries is required to pay federal, state or local taxes, or foreign taxes, Host will receive less dividend income from the relevant entity and will have less cash available for distribution to stockholders. Following the Transactions, Host also expects to receive distributions from its REIT subsidiaries. To the extent those entities are required to pay state, local or foreign taxes, amounts available for distribution to Host will be reduced.

As described above in “—Federal Income Taxation of Host—Taxable REIT Subsidiaries,” each of Host’s taxable REIT subsidiaries is fully taxable as a corporation and is subject to certain rules intended to restrict its ability to reduce its tax liability.

Taxation of Taxable U.S. Stockholders

The term “U.S. stockholder,” when used in this discussion, means a holder of Host’s stock who is, for United States federal income tax purposes:

- a citizen or resident alien individual, as defined in Section 7701(b) of the Code, of the United States,
- a corporation, partnership, limited liability company or other entity treated as a corporation or partnership for federal income tax purposes, created or organized in or under the laws of the United States or any state or in the District of Columbia, unless, in the case of a partnership, Treasury Regulations provide otherwise,
- an estate the income of which is subject to federal income taxation regardless of its source or
- a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

Notwithstanding the preceding sentence, to the extent provided in Treasury Regulations, some trusts in existence on August 20, 1996, and treated as United States persons prior to this date that elect to continue to be treated as United States persons, shall also be considered U.S. stockholders. In the case of an entity treated as a partnership for federal income tax purposes, the treatment of its partners generally will depend upon the status of the partner and the activities of the partnership. Persons that have an indirect interest in Host’s stock through entities treated as partnerships for federal income tax purposes should consult their tax advisors.

A “non-U.S. stockholder” is a holder, including any partner in a partnership that holds Host’s stock, that is not a U.S. stockholder, as defined herein.

Distributions Generally

Distributions (or deemed distributions) made by Host out of its current or accumulated E&P, other than capital gain dividends or retained capital gain as discussed below, constitute dividends taxable to its taxable U.S. stockholders as ordinary income. So long as Host qualifies as a REIT, such distributions are not eligible for the dividends received deduction that is generally afforded to U.S. stockholders that are corporations. To the extent that Host makes distributions 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 tax basis that such U.S. stockholder has in its stock for federal income tax purposes by the amount of such distribution, but not below zero, with distributions in excess of such U.S. stockholder's adjusted tax basis taxable as capital gain, provided that the stock has been held as a capital asset. For purposes of determining whether distributions to holders of Host's preferred stock or common stock are made out of Host's current or accumulated earnings and profits for federal income tax purposes, earnings and profits are allocated first to Host's preferred stock on a pro rata basis and then to Host's common stock. Host 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's distributions of ordinary income, except to the extent properly designated by Host as qualified dividend income, will not qualify for the maximum 15% long-term capital gain rate that generally applies to distributions by regular C corporations to stockholders who are taxed as individuals.

Distributions will generally be taxable, if at all, in the year of distribution. However, if Host declares a dividend in October, November or December of any year and pays such dividend to a stockholder of record on a specified date in any such month, such dividend will be treated as both paid by Host and received by the stockholder on December 31 of such year, provided that the dividend is actually paid by Host on or before January 31 of the following year.

For purposes of computing liability for alternative minimum tax, certain of Host's alternative minimum tax adjustments will be treated as alternative minimum tax adjustments of its stockholders in the ratio that Host's distributions bear to its taxable income (determined without regard to the deduction for dividends paid). Amounts treated as alternative minimum tax adjustments of Host's stockholders are deemed to be derived by the stockholders proportionately from each such alternative minimum tax adjustment of Host and are taken into account by the stockholders in computing their alternative minimum taxable income for the taxable year to which the dividends are attributable.

Capital Gain Distributions; Retained Net Capital Gains

Distributions that Host properly designates as capital gain dividends are taxable to U.S. stockholders as gain from the sale or exchange of a capital asset held for more than one year (without regard to the period for which such taxable U.S. stockholder has held his stock) to the extent that they do not exceed Host's actual net capital gain for the taxable year. A U.S. stockholder's share of a capital gain dividend is 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 of stock for the year.

If Host designates any portion of a dividend as a capital gain dividend, a U.S. stockholder will receive an IRS Form 1099 - DIV indicating the amount that will be taxable to the stockholder as capital gain. Corporate stockholders, however, may be required to treat up to 20% of capital gain dividends as ordinary income.

Instead of paying capital gain dividends, Host may designate all or part of its net capital gain as “undistributed capital gain.” Host will be subject to tax at regular corporate income tax rates on any undistributed capital gain.

A U.S. stockholder:

- (1) will include in its income as long-term capital gains its proportionate share of such undistributed capital gains; and
- (2) will be deemed to have paid its proportionate share of the tax paid by Host on such undistributed capital gains and receive a credit or a refund to the extent that the tax paid by Host exceeds the U.S. stockholder’s tax liability on the undistributed capital gain.

A U.S. stockholder will increase the basis in its stock by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. The earnings and profits of Host will be adjusted appropriately.

Host will classify portions of any designated capital gain dividend or undistributed capital gain as either:

- (1) a 15% rate gain distribution, which would be taxable to non-corporate U.S. stockholders at a maximum rate of 15%; or
- (2) an “unrecaptured Section 1250 gain” distribution, which would be taxable to non-corporate U.S. stockholders at a maximum rate of 25%.

Host must determine the maximum amounts that it may designate as 15% and 25% rate capital gain dividends by performing the computation required by the Code as if the REIT were an individual whose ordinary income were subject to a marginal tax rate of at least 28%. Designations made by Host will be effective only 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. If Host designates any portion of its net capital gain as undistributed capital gain, a U.S. stockholder will receive an IRS Form 2439 indicating the total amount of undistributed capital gain, the amount of unrecaptured Section 1250 gain, if any, and the tax paid by Host on the undistributed capital gain.

Recipients of capital gain dividends from Host that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on those dividends.

Qualified Dividend Income

Host may elect to designate a portion of its distributions paid to stockholders as “qualified dividend income.” That portion of a distribution which is properly designated as qualified dividend income is taxable to a non-corporate U.S. stockholder at long-term

capital gain rates, so long as the stockholder satisfies the applicable holding requirements. As a general rule, the stockholder must have held the stock with respect to which the distribution is paid for more than 61 days during the 121-day period beginning 60 days before the ex-dividend date for the distribution. The maximum amount of Host's distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- (1) the qualified dividend income received by Host during such taxable year from regular C corporations (including Host's taxable REIT subsidiaries);
- (2) the excess of any "undistributed" REIT taxable income recognized during the immediately preceding year over the federal income tax paid by Host with respect to such undistributed REIT taxable income; and
- (3) the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a regular C corporation over the federal income tax paid by Host with respect to such built-in gain.

Generally, dividends that Host receives will be treated as qualified dividend income for purposes of (1) above if the dividends are received from a domestic corporation (other than a REIT or a regulated investment company) or a "qualifying foreign corporation" and specified holding period requirements and other requirements are met. A foreign corporation (other than a "passive foreign investment company") will constitute a qualifying foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the stock of the foreign corporation on which the dividend is paid is readily tradable on an established securities market in the United States.

Host's Losses; Investment Interest Limitation

U.S. stockholders may not include in their income tax returns any net operating losses or capital losses of Host. Instead, such losses may be carried over by Host for potential offset against future income, subject to certain limitations. Distributions made by Host and gain arising from the sale or exchange by a U.S. stockholder of Host 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.

Taxable dividend distributions from Host generally will be treated as investment income for purposes of the "investment interest limitation." This limitation provides that a non-corporate U.S. stockholder may deduct as an itemized deduction in any taxable year only the amount of interest incurred in connection with property held for investment that does not exceed the excess of the stockholder's investment income over his or her investment expenses for that year. A non-corporate U.S. stockholder may elect to treat capital gain dividends, capital gains from the disposition of shares of stock, including

distributions treated as such, and income designated as qualified dividend income as investment income, in which case the applicable capital gains will be taxed at ordinary income rates. Host intends to comply with IRS guidance or regulations on the notification of stockholders regarding the portions of distributions for each year that constitute ordinary income, return of capital and capital gain.

Dispositions of Host's Stock

Upon any sale or other disposition of Host's stock, a U.S. stockholder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between (1) the amount of cash and the fair market value of any property received on such sale or other disposition and (2) the holder's adjusted tax basis in such stock for federal income tax purposes.

The applicable tax rate will depend on the stockholder's holding period in the asset (generally, if an asset has been held for more than one year, it will produce long-term capital gain) and the stockholder's tax bracket. The IRS has the authority to prescribe, but has not yet prescribed, regulations that would apply a capital gain tax rate of 25% (which is higher than the maximum 15% long-term capital gain tax rate for noncorporate stockholders) to a portion of capital gain realized by a noncorporate stockholder on the sale of REIT shares that would correspond to the REIT's "unrecaptured Section 1250 gain." Stockholders are urged to consult with their own tax advisors with respect to their capital gain tax liability. A corporate U.S. stockholder will be subject to tax at a maximum rate of 35% on capital gain from the sale of Host stock held for more than 12 months. In general, any loss recognized by a U.S. stockholder upon the sale or other disposition of stock that has been held for six months or less, after applying the holding period rules, will be treated as a long-term capital loss, to the extent of distributions received by the U.S. stockholder from Host that were required to be treated as long-term capital gains.

Taxation of Tax-Exempt Stockholders

Provided that a tax-exempt stockholder has not held its stock as "debt financed property" within the meaning of the Code and such shares of stock are not otherwise used in a trade or business, the dividend income from Host will not be unrelated business taxable income ("UBTI") to a tax-exempt stockholder. Similarly, income from the sale of stock will not constitute UBTI unless such tax-exempt stockholder has held such stock as "debt financed property" within the meaning of the Code or has used the 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 Code Sections 501 (c)(7), (c)(9), (c)(17) and (c)(20), respectively, income from an investment in Host 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. Such a prospective stockholder should consult its own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a “pension held REIT” shall be treated as UBTI as to any trust that is described in Section 401(a) of the Code, is tax-exempt under Section 501(a) of the 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 Code are referred to below as “qualified trusts.” A REIT is a “pension held REIT” if it meets the following two tests:

- The REIT would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code 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.
- Either at least one such qualified trust holds more than 25%, by value, of the interests in the REIT, or 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. As discussed above, 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’s stock and the limitations on transfer and ownership of stock contained in the Host’s charter, Host 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 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 United States federal income tax and does not address any 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 qualifies for taxation as a REIT. Prospective non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state, local and foreign income tax laws with respect to an investment in stock, including any reporting requirements.

Distributions Generally

Distributions (or deemed distributions) by Host to a non-U.S. stockholder that are neither attributable to gain from sales or exchanges by Host of “U.S. real property interests” nor designated by Host as capital gain dividends or retained capital gains will be treated as dividends of ordinary income to the extent that they are made out of current or accumulated E&P of Host. Such distributions ordinarily will be subject to withholding of U.S. 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 U.S. trade or business. Under some treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from a REIT, such as Host. 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. corporate stockholder engaged in a U.S. trade or business 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. Certain certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption.

Host expects to withhold U.S. income tax at the rate of 30% on any dividend distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. stockholder unless:

- (1) a lower treaty rate applies and the non-U.S. stockholder files an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate with Host; or
- (2) the non-U.S. stockholder files an IRS Form W-8ECI with Host claiming that the distribution is income effectively connected with the non-U.S. stockholder’s trade or business.

Distributions in excess of the current or accumulated E&P of Host will not be taxable to a non-U.S. stockholder to the extent that they do not exceed the adjusted tax basis of the stockholder’s stock, but rather will reduce the adjusted tax basis of such stock. Such distributions, however, will be subject to U.S. withholding tax as described below. To the extent that such distributions exceed the adjusted tax basis of a non-U.S. stockholder’s stock, they will be treated as gain from the sale of the stockholder’s stock, the tax treatment of which is described below under “—Dispositions of Host’s Stock.”

Host is required to withhold 10% of any distribution in excess of its current and accumulated E&P, even if a lower treaty rate applies and the non-U.S. stockholder is not liable for tax on receipt of that distribution. Consequently, although Host currently intends that its transfer agent will withhold at a rate of 30%, or a lower applicable treaty rate, on the entire amount of any distribution, to the extent that this is not done, 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 such distribution was, in fact, in excess of the current or accumulated E&P of Host, and the amount withheld exceeded the non-U.S. stockholder's U.S. tax liability, if any, with respect to the distribution.

Capital Gain Distributions; Retained Net Capital Gains

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

- (1) the investment in the stock is effectively connected with the non-U.S. stockholder's U.S. 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
- (2) the non-U.S. stockholder is a nonresident alien individual who is present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S., in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

In light of recent amendments to the REIT taxation provisions of the Code, it is not entirely clear whether distributions that are (i) otherwise treated as capital gain dividends, (ii) not attributable to the disposition of a U.S. real property interest, and (iii) paid to a non-U.S. stockholder who owns less than 5% of the value of Host's stock at all times during the relevant taxable year, will be treated as long-term capital gain or as ordinary dividends taxable in the manner described above under "—Distributions Generally." If Host were to pay a capital gain dividend described in the prior sentence, non-U.S. stockholders should consult their tax advisors regarding the taxation of such distribution in their particular circumstances.

Except as described in the next sentence, under the Foreign Investment in Real Property Tax Act, which is referred to as "FIRPTA," distributions to a non-U.S. stockholder that are attributable to gain from sales or exchanges by Host of U.S. real property interests, whether or not designated as capital gain dividends, will be subject to U.S. federal income tax in the manner described above under "—Distributions Generally." This treatment will not apply, however, to any such distribution received by a non-U.S. stockholder with respect to a class of stock that is not regularly traded on an established securities market located in the U.S. or any such distribution paid to a non-U.S. stockholder who owns, at any time during the tax year in which the distribution is treated as being received, more than 5% of the class of stock with regard to which the

distribution is paid. A non-U.S. stockholder receiving a distribution described in the previous sentence will be treated as recognizing gain that is income effectively connected with a U.S. trade or business. Non-U.S. stockholders will be taxed on this gain at the same rates applicable to U.S. stockholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% branch profits tax in the hands of a non-U.S. corporate stockholder, as discussed above.

Host will be required to withhold and to remit to the IRS 35% of any such distribution to a non-U.S. stockholder that is designated as a capital gain dividend or, if greater, 35% of a distribution to such non-U.S. stockholder that could have been designated by Host as a capital gain dividend. Distributions can be designated as a capital gain dividend to the extent of Host's net capital gain for the taxable year of the distribution. The amount withheld is creditable against the non-U.S. stockholder's United States federal income tax liability or refunded when the non-U.S. stockholder properly and timely files a tax return with the IRS.

Although the law is not clear on the matter, it appears that amounts designated by Host as retained capital gains in respect of the stock held by U.S. stockholders (see "—Federal Income Taxation of Host—Annual Distribution Requirements Applicable to REITs" above) generally should be treated with respect to non-U.S. stockholders in the same manner as actual distributions by Host 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 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 were to exceed their actual United States federal income tax liability. If Host were to designate any portion of its net capital gain as undistributed capital gain, a non-U.S. stockholder should consult its tax advisor regarding the taxation of such undistributed capital gain.

Dispositions of Host's Stock

Gain recognized by a non-U.S. stockholder upon the sale or exchange of Host's stock generally would not be subject to U.S. taxation unless:

- the investment in Host's stock is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder will be subject to tax on a net basis in a manner similar to the taxation of U.S. stockholders with respect to any gain;
- 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 any gain from the sale or exchange of Host's stock will be included in determining the individual's net capital gain from U.S. sources for the taxable year, subject to a 30% withholding tax; or

- Host's stock constitutes a U.S. real property interest within the meaning of FIRPTA, as described below.

The stock will not constitute a "U.S. real property interest" so long as Host 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 believes, but cannot guarantee, that it is a "domestically controlled REIT." Even if Host is a "domestically controlled REIT," because the stock is publicly traded, no assurance can be given that Host will continue to be a "domestically controlled REIT." Notwithstanding the foregoing, gain from the sale or exchange of stock not otherwise subject to FIRPTA will be taxable to a non-U.S. stockholder if either (a) the investment in Host stock is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as domestic stockholders with respect to any gain or (b) 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% United States withholding tax on the amount of such individual's gain.

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

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

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

Information Reporting and Backup Withholding Tax Applicable to Stockholders

U.S. Stockholders. In general, information reporting requirements will apply to payments of distributions on Host's stock and payments of the proceeds of the sale of Host's stock to some stockholders, unless an exception applies. Further, the payor will be required to withhold backup withholding tax (currently at a rate of 28%), if:

- (1) the payee fails to furnish a taxpayer identification number, or TIN, to the payor or to establish an exemption from backup withholding;

- (2) the IRS notifies the payor that the TIN furnished by the payee is incorrect;
- (3) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Code; or
- (4) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Code.

Some stockholders, including corporations, may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a stockholder will be allowed as a credit against the stockholder's U.S. federal income tax and may entitle the stockholder to a refund, provided that the required information is furnished to the IRS. A U.S. stockholder that does not provide Host with a correct taxpayer identification number may also be subject to penalties imposed by the IRS.

Non-U.S. Stockholders. Generally, information reporting will apply to payments of distributions on Host's stock, and backup withholding, currently at a rate of 28%, may apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption.

The proceeds of a disposition by a non-U.S. stockholder of stock to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership if partners who hold more than 50% of the interest in the partnership are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting generally will apply as though the payment were made through a U.S. office of a U.S. or foreign broker. Generally, backup withholding does not apply in such a case.

Generally, non-U.S. stockholders will satisfy the information reporting requirements by providing proper IRS withholding certificate (such as the Form W-8BEN). In the absence of a proper withholding certificate, applicable Treasury Regulations provide presumptions regarding the status of holders of Host's stock when payments to the holders cannot be reliably associated with appropriate documentation provided to the payer. If a non-U.S. stockholder fails to comply with the information reporting requirement, payments to such person may be subject to the full withholding tax even if such person might have been eligible for a reduced rate of withholding or no withholding under applicable income tax treaty. Any payment subject to a withholding tax will not be again subject to the backup withholding. Because the application of these Treasury Regulations varies depending on the holder's particular circumstances, a non-U.S. holder of Host's stock is advised to consult its tax advisors regarding the information reporting requirements applicable to it.

Sunset of Reduced Tax Rate Provisions

Several of the tax considerations described herein are subject to a sunset provision. The sunset provisions generally provide that for taxable years beginning after December 31, 2008, certain provisions that are currently in the Code will revert back to a prior version of those provisions. These provisions include provisions related to the reduced maximum income tax rate for capital gains of 15% (rather than 20%) for taxpayers taxed at individual rates, qualified dividend income, including the application of the 15% capital gains rate to qualified dividend income, and certain other tax rate provisions described herein. The impact of this reversion is not discussed herein. Consequently, prospective holders should consult their own tax advisors regarding the effect of sunset provisions on an investment in Host's stock.

Tax Shelter Reporting

If a stockholder recognizes a loss as a result of a transaction with respect to Host's stock of at least (i) for a stockholder that is an individual, S corporation, trust, or a partnership with at least one noncorporate partner, \$2 million or more in a single taxable year or \$4 million or more in a combination of taxable years, or (ii) for a stockholder that is either a corporation or a partnership with only corporate partners, \$10 million or more in a single taxable year or \$20 million or more in a combination of taxable years, such stockholder may be required to file a disclosure statement with the IRS on Form 8886. Direct holders of portfolio securities are in many cases exempt from this reporting requirement, but stockholders of a REIT currently are not exempted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Taxation of Holders of Preferred Stock, Depositary Shares, Warrants, Subscription Rights, Preferred Stock Purchase Rights and Other Host Securities

If Host offers one or more series of preferred stock, depositary shares, warrants, subscription rights, preferred stock purchase rights or other securities, there may be federal income tax considerations for the holders of such securities not discussed herein. For a discussion of any such additional considerations, see the prospectus supplement filed by Host with respect to such offering.