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): October 7, 2005

HOST MARRIOTT, L.P.
(Exact name of registrant as specified in its charter)

Delaware	**000-25087**	**52-2095412**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

6903 Rockledge Drive
Suite 1500
Bethesda, Maryland 20817
(Address of principal executive offices) (Zip Code)

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

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, L.P. deems the following information to be of importance to its partners.

On October 7, 2005, Host Marriott, L.P., sold the Charlotte Marriott Executive Park for approximately $21 million. In accordance with applicable generally acceptable accounting principles, the results of this hotel were presented in the Partnership's continuing operations for all fiscal years included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission ("SEC") on March 2, 2005. In accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Partnership reported the results of this hotel as discontinued operations in its Form 10-Q for the quarter ended September 9, 2005. The following information (which is attached as exhibits hereto and incorporated by reference herein), which was originally presented in the Partnership's Annual Report on Form 10-K reflecting the results of operations of the Charlotte Marriott Executive Park as continuing operations, has been revised to reflect this hotel as discontinued operations, as well as, the repayment of certain debt and the announcement of a definitive merger agreement to acquire 38 hotels from Starwood Hotels and Resorts:

- Selected Financial Data for year-to-date September 9, 2005 and September 10, 2004 and the five years ended December 31, 2004;
- Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for year-to-date Sepetember 9, 2005 and September 10, 2004 and the three fiscal years ended December 31, 2004;
- Revised Consolidated Financial Statements as of and for the three fiscal years ended December 31, 2004;
- Condensed Consolidated Financial Statements as of September 9, 2005 and for the year-to-date ended September 9, 2005 and September 10, 2004; and
- Schedule of Real Estate and Accumulated Depreciation as of December 31, 2004.

Investors are cautioned that the MD&A presented herein has been revised to reflect the effect on the Company's MD&A for the transactions noted above and other events subsequent to March 2, 2005, the filing date of our Form 10-K. The MD&A presented herein has no other changes to the MD&A previously presented in the Company's 2004 Annual Report on Form 10-K. Therefore, it does not purport to update the MD&A included in the Company's Annual Report on Form 10-K for any information, uncertainties, transactions, risks, events or trends occurring, or known to management, other than these transactions. Investors should read the information contained in this current report together with the other information contained in the Company's 2004 Annual Report on Form 10-K filed on March 1, 2005, the Company's Form 10-Qs for the quarters ended March 25, 2005, June 17, 2005 and September 9, 2005, filed with the SEC on May 3, 2005, and July 25, 2005 and October 17, 2005, respectively, and other information filed with, or furnished to, the SEC after March 1, 2005.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit No.	
23.1	Consent of KPMG LLP
99.1	Selected Financial Data
99.2	Management’s Discussion and Analysis of Results of Operations and Financial Condition
99.3	Consolidated financial statements as of December 31, 2004 and 2003 and for the three years ended December 31, 2004
99.4	Condensed consolidated financial statements as of September 9, 2005 and for the year-to-date ended September 9, 2005 and September 10, 2004
99.5	Schedule of Real Estate and Accumulated Depreciation as of December 31, 2004

SIGNATURES

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

HOST MARRIOTT, L.P.

Date: December 9, 2005

By: /s/ HOST MARRIOTT CORPORATION
Host Marriott Corporation
Its General Partner

/s/ Larry K. Harvey
Larry K. Harvey
Senior Vice President and
Corporate Controller of Host Marriott Corporation

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Partners
Host Marriott, L.P.:

We consent to the incorporation by reference in the registration statement (No. 333-61722) on Form S-3 of Host Marriott, L.P. of our report dated February 23, 2005, except as to notes 4, 10, 15, 18 and 19, which are as of November 14, 2005, with respect to the consolidated balance sheets of Host Marriott, L.P. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2004 and the related financial statement schedule of real estate and accumulated depreciation, which report appears in the current report on Form 8-K of Host Marriott, L.P. dated December 9, 2005.

KPMG LLP

McLean, Virginia
December 9, 2005

Exhibit 99.1

SELECTED FINANCIAL DATA

The following table presents certain selected historical financial data of Host LP which has been derived from audited consolidated financial statements for the five years ended December 31, 2004 and the unaudited condensed consolidated financial statements as of and for the year-to-date periods ended September 9, 2005 and September 10, 2004. The historical information contained in the following table for our 2001 through 2004 operations primarily represents gross hotel-level revenues and expenses of our properties. During 2000, we owned the hotels but leased them to third-party lessees and, accordingly, during these periods our historical revenues primarily represent rental income generated by our leases. For further information, please see "Management's Discussion and Analysis of Results of Operations and Financial Condition—Results of Operations."

	Year-to-date		Fiscal year				
	September 9, 2005	September 10 2004	2004	2003	2002	2001	2000
					(in millions)		
Income Statement Data:							
Revenues	$2,647	$2,452	$3,629	$3,278	$3,333	$3,362	$1,305
Income (loss) from continuing operations	84	(94)	(66)	(238)	(74)	12	142
Income from discontinued operations (1)	13	28	65	252	55	45	65
Net income (loss)	97	(66)	(1)	14	(19)	57	207
Net income (loss) available to common unit holders	72	(98)	(42)	(21)	(54)	25	187
Basic earnings (loss) per common unit:							
Income (loss) from continuing operations	.16	(.36)	(.30)	(.89)	(.38)	(.07)	.43
Income from discontinued operations	.03	.08	.18	.82	.19	.16	.23
Net income (loss)	.19	(.28)	(.12)	(.07)	(.19)	.09	.66
Diluted earnings (loss) per common unit:							
Income (loss) from continuing operations	.16	(.36)	(.30)	(.89)	(.38)	(.07)	.42
Income from discontinued operations	.03	.08	.18	.82	.19	.16	.23
Net income (loss)	.19	(.28)	(.12)	(.07)	(.19)	.09	.65
Cash distributions declared per common unit	.29	—	.05	—	—	.78	.91
Balance Sheet Data:							
Total assets	$8,228	$8,364	$8,401	$8,588	$8,311	$8,334	$8,391
Debt	5,501	5,564	5,523	5,978	6,130	6,094	5,814

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Overview

Structure and Business

Host LP is a limited partnership operating through an umbrella partnership structure with Host as the sole general partner. We own 107 full-service luxury and upper-upscale hotel properties and, as of December 1, 2005, Host was the largest hotel REIT in the National Association of Real Estate Investment Trust's composite index. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. Host operates as a self-managed and self-administered REIT and owns approximately 95% of our partnership interests.

Our hotels are operated under brand names that are among the most respected and widely recognized in the lodging industry—including Marriott®, Ritz-Carlton®, Hyatt®, Four Seasons®, Fairmont®, Hilton® and Westin®. Approximately 85% of our hotels (as measured by sales) are currently managed by Marriott International or its affiliates and branded under the Marriott or Ritz-Carlton brand names. The majority of our properties are located in central business districts of major cities, near airports and in resort/conference locations. The target profile for our portfolio includes luxury and upper-upscale full-service properties in urban and resort/conference locations which benefit from significant barriers to entry by competitors. Though hotels meeting this target profile will still be subject to competitive pressures, we believe this will allow us to maintain room rate and occupancy premiums over our competitors. We also seek to maximize the value of our portfolio through aggressive asset management, by assisting the managers of our hotels in maximizing property operations and by completing strategic capital improvements.

The majority of our customers fall into three broad groups: transient business, group business, and contract business (approximately 54%, 43% and 3%, respectively, of our business in 2004). Similar to the majority of the lodging industry, we further categorize business within these segments based on characteristics they have in common as follows:

Transient demand broadly represents individual business or leisure travelers and is divided into four key sub-categories: premium, corporate, special corporate and discount. Overall, business travelers make up approximately 80% of transient demand at our hotels, with leisure travelers making up the remainder. Therefore, our business will be more significantly affected by trends in business travel versus leisure demand:

- Premium: sometimes referred to as "rack rate," typically consists of rooms booked close to arrival during high demand periods and is the highest rate category available. Room rates will fluctuate depending on anticipated demand levels (e.g. seasonality, weekday vs. weekend stays).
- Corporate: this is the benchmark rate which a hotel publishes and offers to the general public. It is typically the second highest category, and is for travelers that do not have access to negotiated or discount rates.
- Special Corporate: this is a negotiated rate offered to companies and organizations that provide significant levels of room night demand to the hotel. These rates are typically negotiated annually, at a discount to the anticipated corporate rate.
- Discount: this encompasses all discount programs, such as AAA and AARP discounts, government per diem, rooms booked through internet distribution and wholesale channels, frequent guest program redemptions, and promotional rates and packages offered by a hotel.

Group demand represents clusters of guestrooms booked together, usually with a minimum of 10 rooms. Examples include a company training session or a social event such as a family reunion. Group business is segmented into the following three key sub-categories:

- Association: group business related to national and regional association meetings and conventions.
- Corporate: group business related to corporate meetings (e.g., product launches, training programs, contract negotiations, and presentations).
- Other: group business predominately related to social, military, education, religious, fraternity and youth and amateur sports teams, otherwise known as SMERF business.

The final segment is contract demand, which refers to blocks of rooms sold to a specific company for an extended period of time at significantly discounted rates. Contract rates are usually utilized by hotels that are located in markets that are experiencing consistently low levels of demand. Airline crews are typical generators of contract demand for our hotels.

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

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

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

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

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

The expense components listed above are based on those presented in our consolidated statement of operations. It is also worth noting that wage and benefit costs are spread among various components, however, taken separately these costs represent approximately 50% of our total expenses, making wages and benefits the most significant component of our cost structure.

Key Performance Indicators

We have several key indicators that we use to evaluate the performance of our business. Revenue per available room, or RevPAR, is a commonly used measure within the hotel industry to evaluate hotel operations. RevPAR is defined as the product of the average daily room rate charged and the average daily occupancy achieved. RevPAR does not include revenues from food and beverage or parking, telephone, or other guest services generated by the property. Although RevPAR does not include these ancillary revenues, it is generally considered the leading indicator of core revenues for many hotels. We also use RevPAR to evaluate the results of individual hotels between periods and our comparable hotels. See “Comparable Hotel Operating Statistics” for further discussion of what we consider to be our comparable hotels.

RevPAR changes driven predominately by occupancy have different implications on overall revenue levels as well as incremental operating profit than do changes driven predominately by average room rate. For example, increases in occupancy at a hotel would lead to increases in rooms revenues and ancillary revenues, such as food

and beverage, as well as additional incremental costs (including housekeeping services, utilities and room amenity costs). RevPAR increases due to higher room rates, however, would not result in these additional room-related costs. For this reason, while operating profit typically increases when occupancy rises, RevPAR increases due to higher room rates would have a greater impact on our profitability.

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

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

Outlook

For 2004, RevPAR increased approximately 7.3% at our comparable hotels as compared to 2003. For the first three quarters of 2005, RevPAR for our comparable hotels increased 9.1% over the same period of 2004. Improvements in RevPAR for the first half of 2004 were primarily driven by increases in occupancy at our hotels. In the second half of 2004, increases in RevPAR were attributable to increases in both occupancy and average room rates. Improvements in RevPAR at our comparable hotels for the first three quarters of 2005 were driven primarily by significant increases in average room rate, and to a lesser extent, by growth in occupancy. This is a result of a number of positive trends such as strong United States GDP growth, low supply growth of new upper-upscale and luxury hotels and the strengthening in the group and transient segments of our business. As a result of these trends, we expect comparable hotel RevPAR to increase approximately 8% to 9% for full year 2005 and an additional 7% to 9% for full year 2006.

We expect the supply growth of upper-upscale and luxury hotels to continue to be low for the next two to three years. Although always subject to uncertainty, supply growth is relatively easier to forecast than demand growth due to the long permit, approval and development lead-times associated with building new full-service hotels or expanding existing full-service hotels. Based on data provided by Lodging Econometrics, upper-upscale and luxury hotel supply growth in the U.S. is expected to increase by approximately 1.5% and 1.6% in 2006 and 2007, respectively. We believe that, based on a review of forecast supply growth in the specific geographic markets where we have hotels, supply growth of hotels potentially competitive with our hotels will be slightly lower than the Lodging Econometrics forecasts.

The performance of our portfolio is also significantly affected by the results of our large hotels, including our convention hotels, the majority of which are located in major urban markets. Convention hotels have historically outperformed in the early stages of an industry downturn; however, they also lag the industry in performance in the early stages of recovery. This is primarily due to the longer booking lead-time for large group business and the need for transient demand in a market to recover to more substantial levels given a greater capacity of rooms. Recently, we have started to see significant improvement in the operations of our convention hotels in certain markets, such as New York, while our large hotels in weaker markets, such as Boston, continue to lag the portfolio. We expect increasing demand to continue to improve operations at our large convention hotels as markets strengthen, which should positively affect margin and RevPAR growth.

We assess profitability by measuring changes in our operating margins, which are calculated as operating profit as a percentage of total revenues. In terms of profitability measures, operating margins were relatively unchanged for the first half of 2004. However, operating margins increased in the second half of 2004, as the average room rate increases at our hotels began to exceed the rate of inflation for the first time since 2000, resulting in an overall increase in operating margins for the full year for our comparable hotels. Operating margins have continued to improve in 2005, as the average room rate increases at our hotels exceeded the rate of inflation, which is a trend we also expect to continue. Operating margins continue to be affected, however, by certain costs, primarily wages, benefits, utilities and sales and marketing, which increased at a rate greater than inflation, a trend that we also expect to continue in the near term. We expect utility costs to increase by over 10% in 2006, although these costs represent only approximately 3.5% of our revenues. Additionally, as a result of the large-scale devastation due to hurricanes this year, we expect that insurance costs will also increase in 2006 at a rate that exceeds inflation.

Operating margins are also affected by our food and beverage operations which represented 31% of our 2004 revenues. During 2004, food and beverage revenue growth at our comparable hotels was 5.7%. During the first three quarters of 2005, food and beverage revenue growth at our comparable hotels was 5.2%, with a food and beverage margin increase of 0.7 percentage points. As the economy continues to grow, we expect food and beverage revenue to continue to increase, in particular catering revenue, which should result in further improvement in our operating margins.

We also expect to see improvements in RevPAR and operating margins as we continue our strategy of recycling assets. Over the past two years, we have acquired individual upper-upscale and luxury properties in urban and resort/convention locations, where further large-scale lodging development typically is limited, and have disposed of individual assets in suburban and secondary markets. The assets we have acquired have higher RevPAR, higher margins and, we believe, higher growth potential than those we have sold. Over time, these assets should contribute to improvements in overall RevPAR and margins, as well as an increase in the average per room replacement cost of our portfolio. The expected RevPAR for the Starwood portfolio is roughly comparable to the RevPAR for our current hotel portfolio.

During 2004, the average RevPAR penetration index for our comparable hotels modestly declined, but it remains at a premium in relation to our competitive set. This follows a similar decline in our average RevPAR penetration index for our comparable hotels in 2003. Market share at our urban and airport hotels increased slightly in 2004, reversing the prior year trend as a result of the increase in business travel; however, market share continued to decline at our larger convention hotels. During the first three quarters of 2005, the average RevPAR penetration index declined slightly as we continue to work with our managers in achieving the correct mix of transient and group business. We believe that this decline in market share over the past two years and year-to-date 2005 occurred because:

- our hotels generally have a higher percentage of their revenues generated by corporate group and corporate transient customers than their competitors and that business in the upper-upscale and luxury segment did not begin to significantly increase until the second half of 2004;
- certain of our properties overcommitted to lower-rated group business late in 2003, which has resulted in those properties being unable to take advantage of higher-rated transient business as travel increased in 2004 and 2005;

- we have a significant number of large hotels in our portfolio, including nine convention hotels with greater than 1,000 rooms, which require longer periods of time to rebuild their customer base; and
- new supply in several of our markets affected our hotels.

As lodging demand continues to grow and, in particular, as corporate group and corporate transient business strengthens, we believe that RevPAR penetration index will improve.

While we believe the combination of improving demand trends and low supply trends in the lodging industry discussed here creates the opportunity for improvements in our business in 2005 and 2006, there can be no assurances that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower than anticipated growth in the economy and changes in travel patterns. All of the above, as well as the risks set forth in the section "Forward-Looking Statements," in our SEC filings, may result in lower revenues or higher operating costs and declining operating margins.

Management's Priorities

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

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

In furtherance of these objectives, we acquired three hotels in 2004 valued at approximately $502 million (the Fairmont Kea Lani Maui, the Embassy Suites Chicago Downtown-Lakefront and the Scottsdale Marriott at McDowell Mountains), and in 2005 we acquired the Hyatt Regency on Capitol Hill, Washington, D.C. for approximately $274 million. We sold nine non-core properties in 2004 for approximately $254 million and another five properties in 2005 for approximately $149 million. We also completed the sale of 85% of our interest in the CBM Joint Venture, which owns 120 Courtyard by Marriott properties, for approximately $92 million in March 2005.

Additionally, we raised approximately $1.2 billion through financing activities in 2004 and approximately $640 million in financing activities for the first three quarters of 2005. We used those funds, along with funds raised through asset dispositions, to acquire properties and to repay or refinance approximately $1.6 billion in senior notes and $256 million in mortgage debt, all of which improved our interest coverage ratio and our overall leverage ratio.

Similarly, we spent approximately $44 million in 2004 and $46 million for year-to-date 2005 on repositioning and ROI projects. We expect to complete a $60 million renovation and repositioning of our Newport Beach Marriott hotel in December 2005. As part of this project, we have negotiated to sell land which currently houses a tennis facility at this property to a high-end condominium developer. In 2005, we committed to invest approximately $60 million for the development of a 105,000 square-foot exhibit hall at the Orlando World Center Marriott Resort and Convention Center, or the Orlando Marriott World Center. We expect to spend

$200 million to $400 million on such investments in the next several years. By contrast, we had limited our expenditures on such development projects in 2002 and 2003 based on our assessment of the relatively weak operating environment and to preserve capital.

We believe we successfully executed on a number of these management priorities in 2004 and 2005, taking advantage of the positive trends in the hotel industry noted above, as well as improving conditions in the financial markets. We also believe that the acquisition of the Starwood portfolio in the Transactions is a very important step in furtherance of these priorities. There can be no assurances, however, that these trends will continue or that we will be able to continue to execute on all, or any, of these priorities over the next several years.

Recent Events

On August 29, 2005, Hurricane Katrina made landfall in Louisiana, Mississippi and Alabama, causing wind and water damage to our 1,290-room New Orleans Marriott; however, the property was not damaged by the subsequent large-scale flooding in the city. Approximately 900 rooms of the hotel have been re-opened as of December 1, 2005 and we are working to repair the remaining portion of the hotel. The current estimate to repair the property damage is approximately $45 million to $50 million, substantially all of which will be covered by insurance. The operations of the hotel have been, and will continue to be, affected by the large-scale devastation throughout New Orleans. As a result of the large-scale devastation throughout New Orleans, it is unlikely that operations will return to historical levels for an extended period of time.

On September 25, 2005, which is in our fourth quarter, Hurricane Rita made landfall in Louisiana and Texas. We did not sustain any property damage at our three hotels in Houston as a result of the hurricane; however, we did experience some loss of business due to cancellations and evacuations.

On October 24, 2005, Hurricane Wilma made landfall in Florida, causing significant damage to the Ft. Lauderdale Marina Marriott. The Harbor Beach Resort, Biscayne Bay Marriott and Singer Island Hilton properties suffered minor window and façade damage, as well as water penetration in many areas of the buildings. The Ritz-Carlton, Naples suffered roof damage and moderate water intrusion. At this time, the total extent of the property damage from hurricane Wilma has not been determined, but we believe total property damage will be approximately $50 million, substantially all of which will be covered by insurance.

Year-to-date operations were not significantly affected by all of these hurricanes; however, the affect on fourth quarter operations is expected to be more significant. Our insurance coverage for the properties entitles us to receive payments for business interruption, as well as recoveries for property damage as a result of the hurricanes. We expect that the insurance proceeds will be sufficient to cover substantially all of the property damage to the hotels and the near-term loss of business. Income resulting from business interruption insurance cannot be recognized until all contingencies are resolved. While we expect our business interruption insurance proceeds to ultimately cover our losses for the fourth quarter, the timing of these payments, the resolution of all contingencies, and recognition of income is unclear and will likely lag into 2006.

On September 30, 2005, we purchased the 834-room Hyatt Regency, Washington D.C. on Capitol Hill for a purchase price of approximately $274 million. The acquisition was financed with available cash.

On October 7, 2005, we sold the 297-room Charlotte Executive Park Marriott for $21 million. During the third quarter of 2005 we reclassified the assets and liabilities of the hotel as held for sale. We will record a gain of approximately $7 million on the sale in the fourth quarter of 2005.

On November 14, 2005 we signed a definitive merger agreement to acquire 38 luxury and upper-upscale hotels from Starwood Hotels and Resorts ("Starwood") for approximately $4.04 billion, "the Merger". The portfolio consists of 25 domestic and 13 international properties and a total of 18,964 rooms managed under the Westin, Sheraton, W Hotels, The Luxury Collection and St. Regis brands. As part of this transaction, we expect to assume approximately $704 million of debt and Host Marriott Corporation, our sole general partner, will issue approximately $2.3 billion of equity (133,529,412 common shares at the exchange price of $17.00 per share) to Starwood stockholders and we will issue a corresponding number of operating partnership units to Host Marriott

Corporation. The remainder of the purchase price will be paid in cash. The transaction is expected to close in the first quarter of 2006, and is subject to the approval of the Host Marriott Corporation's stockholders, as well as other closing conditions. The boards of directors of Host Marriott and Starwood have approved the proposed transaction.

Currently, we have $3.1 billion of senior notes outstanding and Host has $250 million of preferred stock and $492 million of Convertible Preferred Securities that are all rated by Moody's Investors Service and Standard & Poor's. On October 13, 2005, Moody's upgraded our senior note debt from a Ba3 rating to a Ba2 rating, Host's preferred stock from a B2 rating to a B1 rating and Host's Convertible Preferred Securities from a B2 rating to a Ba3 rating. On November 8, 2005, Standard and Poor upgraded our senior debt from a B+ rating to a BB- rating and upgraded Host's preferred stock and Convertible Preferred Securities from a CCC+ rating to a B- rating.

Results of Operations

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

	Year-to-date ended		
	September 9, 2005	September 10, 2004	% Change
Revenues			
Total hotel sales	$ 2,571	$ 2,378	8.1%
Operating costs and expenses:			
Property-level costs (1)	2,265	2,150	5.3
Corporate and other expenses	45	43	4.7
Operating profit	337	259	30.1
Interest expense	318	356	(10.7)
Minority interest (income) expense	6	3	N/M(3)
Income from discontinued operations	13	28	(53.6)
Net income (loss)	97	(66)	N/M(3)
Comparable hotel operating statistics (2)			
RevPAR	$ 121.55	$ 111.44	9.1%
Average room rate	$ 163.17	$ 151.75	7.5%
Average occupancy	74.5%	73.4%	1.1 pts.

	2004	2003	% Change 2003 to 2004	2002	% Change 2002 to 2003
Revenues					
Total hotel sales	$ 3,522	$ 3,166	11.2%	$3,232	(2.0)%
Operating costs and expenses:					
Property-level costs (1)	3,156	2,919	8.1	2,872	1.6
Corporate and other expenses	67	60	11.7	45	33.3
Operating profit	406	299	35.8	416	(28.1)
Interest expense	484	521	(7.1)	492	5.9
Loss from continuing operations	(66)	(238)	72.3	(74)	N/M(3)
Net income (loss)	(1)	14	N/M(3)	(19)	N/M(3)
Comparable hotel operating statistics (2):					
RevPAR	$107.66	$100.35	7.3%	N/A	(4.2)%
Average room rate	$149.64	$145.42	2.9%	N/A	(1.9)%
Average occupancy	71.9%	69.0%	2.9pts.	N/A	(1.6)pts.

(1) Amount represents operating costs and expenses per our statements of operations less corporate and other expenses.

(2) Comparable hotel operating statistics for year-to-date 2005 and year-to-date 2004 are based on the 99 hotels we define as comparable as of September 9, 2005. Comparable hotel operating statistics for 2004 and 2003 are based on the 103 hotels we define as comparable as of December 31, 2004. The percentage change from 2002 to 2003 is based on the 107 hotels we define as comparable as of December 31, 2003. See "Comparable Hotel Operating Statistics" for further details.

(3) N/M=Not Meaningful

Year-to-date September 9, 2005 compared to Year-to-date September 10, 2004

Hotel Sales Overview. Hotel sales increased $193 million, or 8.1%, to $2,571 million for year-to-date 2005. Hotel sales include $96 million and $22 million for 2005 and 2004, respectively, of sales from hotels acquired in 2004. Sales for properties sold in 2005 or 2004 or classified as held-for-sale as of September 9, 2005 have been reclassified as discontinued operations on our condensed consolidated statements of operations. See "Discontinued Operations" below.

Comparable hotel sales increased 7.4% to $2,412 million for year-to-date 2005. The revenue growth reflects the increase in comparable RevPAR of 9.1%, as a result of an increase in average room rates of 7.5% and an increase in occupancy of 1.1 percentage points. Food and beverage revenues for our comparable hotels increased 5.2%, primarily due to an increase in catering and outlet revenues.

We discuss operating results for our full-service hotels on a comparable basis. Comparable hotels are those properties that we have owned for the entirety of the reporting periods being compared. Comparable hotels do not include the results of properties acquired or sold, or that incurred significant property damage and business interruption or large scale capital improvements during these periods. As of September 9, 2005, 99 of our 107 full-service hotels have been classified as comparable hotels. The following discussion is of the sales results of our comparable hotels considering the mix of business (i.e. transient, group or contract), property type (i.e. urban, suburban, resort/convention or airport) and geographic region. See "Comparable Hotel Operating Statistics" for a complete description of our comparable hotels and further detail on these classifications.

Demand was strong in the first three quarters of 2005, enabling our operators to significantly increase average daily room rates, particularly in the premium and corporate transient segments. For our comparable Marriott and Ritz-Carlton hotels, which represent 86% of our total comparable rooms, premium and corporate average daily rates increased 12.8%, compared to last year. Our overall transient average room rate for these hotels increased 9.5%. We expect that increased levels of transient demand will enable our managers to continue rate increases throughout the remainder of 2005 and into 2006.

Total group room revenue for our comparable Marriott and Ritz-Carlton hotels was up 5.2% compared to last year, primarily due to an increase in average room rates of approximately 4.7%. Room rates for groups should continue to improve in 2006, as a lower percentage of group business would have been booked for those periods in 2004 or earlier when room rates were significantly lower than those our managers are able to currently charge. Group booking pace is up only modestly for the remainder of the year, reflecting our managers' strategy of keeping more rooms available for the higher-rated transient segments.

Comparable Hotel Sales by Property Type. For year-to-date 2005, revenues increased significantly across all of our hotel property types. Our urban hotels continue to perform well thus far in 2005, with comparable hotel RevPAR growth of 9.7% to $136.69. The significant increase in comparable hotel RevPAR at our urban properties was primarily driven by an increase in average room rate of 7.4%, while average occupancy improved by 1.6 percentage points. Our resort/conference hotels had comparable hotel RevPAR growth of 7.4% to $162.49, with average room rate growth of 7.8%. Our airport hotels experienced a comparable hotel RevPAR increase of 8.0%, which reflected an average room rate increase 7.4%. Our suburban hotels experienced a comparable hotel RevPAR increase of 9.3%, which reflected an average room rate increase of 7.7%.

Comparable Hotel Sales by Geographic Region. Through the third quarter of 2005, the majority of our geographic regions experienced strong growth in comparable hotel RevPAR with the DC Metro, Mountain and Mid-Atlantic regions all experiencing double-digit growth rates.

Our DC Metro region had a comparable hotel RevPAR increase of 15.3%. The improvement was the result of the continued strong performance of our urban hotels, such as the Metro Center Marriott, which benefited from solid group and business transient demand. Overall, comparable hotel RevPAR increases for the region reflected an average room rate increase of 11.1% year-to-date, and an average occupancy increase of 2.8 percentage points.

Our Pacific region had a comparable hotel RevPAR increase of 9.8%. The region was led by our five Los Angeles market hotels, where RevPAR increased 13.0%. Additionally, the San Francisco market had a comparable hotel RevPAR increase of 8.1%, and the Hyatt Regency Maui Resort and Spa had a comparable hotel RevPAR increase of 17.9%.

Our Mountain region experienced a comparable hotel RevPAR increase of 13.6%. The Denver market experienced a comparable hotel RevPAR increase of 13.9%, led by a comparable hotel RevPAR increase at the Denver Tech Center Marriott of 21.0%.

Comparable hotel RevPAR for our Mid-Atlantic region increased 11.6%, which was driven by a comparable hotel RevPAR growth of 17.4% at our three New York City hotels. Strong group, transient and international demand has strengthened the performance in the New York market.

Comparable hotel RevPAR in our Florida region grew by 8.4% as a result of comparable hotel RevPAR increases in our Tampa and Miami hotels of 12.6% and 15.1%, respectively. These increases were partially offset by declines in comparable hotel RevPAR at the Orlando World Center Marriott due to a decrease in both group and transient bookings.

Our Atlanta region experienced an increase in comparable hotel RevPAR of 2.5%.

Comparable hotel RevPAR for our New England region increased 1.3%. Our Boston market continues to underperform our entire portfolio, as comparable hotel RevPAR increased 2.7%. The weak operating results were primarily the result of reduced demand at the Boston Copley Marriott. Performance in this region should improve over time, based on expected increases in convention activity in 2006 and overall improvements in the Boston economy.

The North Central region of our portfolio experienced an increase in comparable hotel RevPAR of 5.9% as average room rates increased 8.3%.

The year-to-date comparable hotel results in our South Central region, which includes Texas and Louisiana, were not significantly affected by Hurricane Katrina, as the hurricane occurred in the final two weeks of the third quarter. RevPAR in the region grew by 7.1%, driven primarily by strong increases in occupancy and average room rate at our three properties in Houston.

Comparable hotel RevPAR for our international properties increased 8.1%. Our four Canadian properties, three of which are in Toronto, experienced an increase in comparable hotel RevPAR of 10.0%.

Property-level Operating Costs. Property-level operating costs and expenses increased $115 million, or 5.3%, for year-to-date 2005. Property-level operating costs and expenses exclude the costs for hotels we have sold and held for sale, which are included in discontinued operations. Our operating costs and expenses, which are both fixed and variable, are affected by changes in occupancy, inflation and revenues, though the effect on specific costs will differ. For example, utility costs increased 11.6%, primarily due to increases in oil and gas prices, while the increase in management fees of 14.3% were a direct result of the growth in the revenues and profitability of our properties. We expect to continue to see an increase in operating costs during the remainder of 2005 as a result of variable costs increasing with occupancy increases, and certain costs increasing at a rate above inflation, particularly energy prices.

Corporate and Other Expenses. Corporate and other expenses primarily consist of employee salaries and bonuses and other costs such as employee stock-based compensation expense, corporate insurance, audit fees, building rent and system costs. Year-to-date corporate expenses increased by $2 million, or 4.7%, due to an increase in compensation expense.

Interest Income. Interest income increased $9 million, primarily due to increased cash and restricted cash balances and increases in the interest rate earned on those balances.

Interest Expense. Interest expense decreased $38 million as a result of the decrease in our interest obligations from 2004 and 2005 debt repayments and refinancings, as well as a decline in the amount of prepayment penalties associated with debt repayments and refinancings. Specifically, interest expense includes $30 million for 2005 and $54 million for 2004 for the call premiums and the acceleration of deferred financing costs and original issue discounts associated with debt prepayments. These declines in interest expense were partially offset by increased interest rates for our variable rate debt.

Net Gains on Property Transactions. Net gains on property transactions increased $67 million, primarily due to the second quarter pre-tax gain of $70 million on the sale of 85% of our interest in CBM Joint Venture LLC.

Gain (Loss) on Foreign Currency and Derivative Contracts. The gain on foreign currency and derivative contracts is primarily due to the $1 million change in fair value from the foreign currency exchange contracts for two of our Canadian hotels.

Minority Interest Income (Expense). Minority interest expense consists of our minority partners' share of income or loss in consolidated hotel partnerships. The increase in minority interest expense is due to the improvement in operations at certain of our consolidated partnerships.

Equity in Earnings (Losses) of Affiliates. Equity in earnings (losses) of affiliates increased by $11 million due to the earnings of CBM Joint Venture LP, which had recorded net losses throughout 2004.

Discontinued Operations. Discontinued operations consist of one hotel classified as held for sale in the third quarter of 2005, four hotels sold in the first quarter of 2005 and nine hotels sold in 2004 and represents the results of operations and the gain or loss on their disposition. For year-to-date 2005 and 2004, revenues for these properties were $9 million and $104 million, respectively, and income before taxes was $1 million and $9 million, respectively. We recognized a gain, net of tax, of $12 million and $20 million for year-to-date 2005 and 2004, respectively, on the disposition of these hotels.

2004 Compared to 2003

Hotel Sales Overview. Hotel sales increased $356 million, or 11.2%, to $3.5 billion for 2004 as compared to $3.2 billion for 2003. Hotel sales for 2004 include approximately $59 million of sales for the three hotels acquired in 2004 and exclude sales for the properties we have sold or classified as held for sale as of September 9, 2005 for all periods presented, which have been reclassified to discontinued operations. See "Discontinued Operations" below. Comparable hotel sales increased 6.4%, or $203 million, to $3.4 billion. The growth in revenues reflects the increase in comparable RevPAR of 7.3% for 2004, as a result of strong increases in occupancy of 2.9 percentage points, as well as an increase in average room rate of 2.9%. Food and beverage revenues for our comparable hotels increased 5.7%, primarily due to an increase in catering revenues and the overall increase in occupancy.

We discuss operating results for our full-service hotels on a comparable basis. As of December 31, 2004, 103 of our full-service hotels were classified as comparable hotels. The following discussion is of the sales results of our comparable hotels considering the mix of business (i.e. transient or group), property type (i.e. urban, suburban, resort/conference or airport) and geographic region. See "Comparable Hotel Operating Statistics" for a complete description of our comparable hotels and further detail on these classifications.

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

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

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

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

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

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

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

Our Pacific region, which had lagged behind the portfolio as a whole during 2002 and 2003, continued to improve as comparable hotel RevPAR increased 8.0%, with significant increases in occupancy. The primary reason this region had been underperforming over the past three years was due to the decline in travel related to the area’s technology companies, particularly in the San Francisco Bay area. The improvement in the Pacific region in 2004 reflects an increase in comparable hotel RevPAR at our San Francisco market hotels of 14.5%. The results for the Pacific region also reflect a 6.5% increase in comparable hotel RevPAR at our properties in the Los Angeles market. Overall, we expect the Pacific region to continue to exhibit improving performance in 2005.

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

For 2004, comparable hotel RevPAR in the Florida region improved 7.1% over 2003. During August and September, four hurricanes caused significant damage in Florida. Our 12 properties in the region and the New Orleans Marriott experienced varying levels of property damage and business interruption. During 2004, we recorded $3 million of non-recoverable losses.

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

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

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

Operating Costs and Expenses. Operating costs and expenses increased $244 million, or 8.2%, to $3.2 billion. The operating costs and expenses include approximately $48 million of costs for the three hotels acquired in 2004 and exclude costs for the properties we have sold or classified as held for sale as of September 9, 2005, which have been reclassified to discontinued operations. Property-level expenses, which account for 98% of our total operating costs and expenses, increased $237 million, or 8.1%, to approximately $3.2 billion. Comparable hotel expenses increased $127 million, or 5.1%, to $2.6 billion. The increase in operating costs and expenses is due to additional costs associated with an increase in occupancy at our hotels and an increase in wage, benefit, utility and sales and marketing costs, all of which we believe will continue to increase at a rate greater than inflation.

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

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

Interest Expense. During 2004, interest expense decreased $37 million. Interest expense includes $55 million and $31 million of call premiums and accelerated deferred financing costs and original issue discounts that were associated with debt prepayments made in 2004 and 2003, respectively. After excluding these items, interest expense decreased approximately $60 million due to the significant amount of debt repayments and refinancings that have occurred in 2003 and 2004. See "Liquidity and Capital Resources—Cash Requirements—Debt Repayments and Refinancings."

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

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

Minority Interest Expense. Minority interest expense consists of our minority partners' share of the income or loss in consolidated hotel partnerships.

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

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

For 2004, the nine hotels sold generated net proceeds of approximately $246 million with a net gain on disposition of approximately $52 million. Our revenues for the 22 properties sold in 2003, 2004 and 2005, or classified as held for sale at September 9, 2005 and the final disposition of insurance proceeds for the New York Marriott World Trade Center hotel were $144 million for 2004 and $452 million for 2003. Income before taxes for the same periods was $13 million and $191 million, respectively.

2003 Compared to 2002

Hotel Sales. Hotel sales declined $66 million, or 2.0%, to approximately $3.2 billion. Hotel sales for 2003 include approximately $10 million for one hotel acquired in 2003 and exclude sales for the properties we have sold or classified as held for sale as of September 9, 2005, which have been reclassified to discontinued operations. See "Discontinued Operations" below. We discuss operating results for our hotels on a comparable basis, and as of December 31, 2003, 112 of our 117 full-service hotels owned on that date were classified as comparable for 2003 and 2002. For 2003, our comparable hotel RevPAR of $96.85 was down 4.2% from 2002, reflecting a decline in average room rate of 1.9% and a decrease in occupancy of 1.6 percentage points, primarily due to reduced transient demand for both business and leisure travel. Beginning in the fourth quarter of 2003, demand began to improve relative to the first three quarters of 2003, with less than one-half a percent decrease in room rate and a slight decrease in occupancy over the fourth quarter of 2002. Comparable hotel RevPAR by property type decreased 4.3%, 4.5%, 3.5% and 3.9% for urban, suburban, resort/conference and airport properties, respectively.

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

The relative improvement of these regions was offset by the overall decline in comparable hotel RevPAR in most of our other regions. In particular, our New England and South Central regions had significant declines in

comparable hotel RevPAR of 15.1% and 5.8%, respectively, for the year and 14.4% and 5.7%, respectively, for the fourth quarter. The comparable hotel results in the South Central region were primarily affected by our hotels in San Antonio where full year occupancy was down 3.4 percentage points and average room rate declined 3.6%.

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

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

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

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

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

Interest Expense. Interest expense increased 5.9% over 2002 as a result of the payment of aggregate call premiums of $25 million and the acceleration of deferred financing fees of $6 million associated with the prepayment of our senior notes and various mortgages during 2003.

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

Minority Interest Income (Expense). Minority interest income (expense) consists of our minority partners’ share of income or loss in consolidated hotel partnerships. The decrease in minority interest expense is due to the decline in operations at certain of our consolidated hotel partnerships.

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

Discontinued Operations. Discontinued operations consist of the operations of five hotels sold in 2005, nine hotels sold in 2004, eight hotels sold in 2003, one hotel sold in 2002, the gain on the disposition and business interruption proceeds for the New York Marriott World Trade Center hotel in 2003 and 2002. For 2003, the eight hotels sold generated net proceeds of approximately $184 million with a net gain on disposition of approximately $9 million. Discontinued operations for 2003 also includes a $56 million gain on the disposition

of World Trade Center hotel. For 2003 and 2002, our revenues for all properties included in discontinued operations were $452 million and $346 million, respectively, and our income before taxes was $191 million and $47 million, respectively.

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

Comparable Hotel Operating Statistics

We present certain operating statistics (i.e., RevPAR, average daily rate and average occupancy) and operating results (revenues, expenses and adjusted operating profit) for the periods included in this report on a comparable hotel basis. We define our comparable hotels as full-service properties (i) that are owned or leased by us and the operations of which are included in our consolidated results, whether as continuing operations or discontinued operations, for the entirety of the reporting periods being compared, and (ii) that have not sustained substantial property damage or undergone large-scale capital projects during the reporting periods being compared. Of the 107 full-service hotels that we owned on September 9, 2005, 99 have been classified as comparable hotels. The operating results of the following eight hotels that we owned as of September 9, 2005 are excluded from comparable hotel results for these periods:

- The Memphis Marriott (construction of a 200-room expansion started in 2003 and completed in 2004);
- The Embassy Suites Chicago Downtown-Lakefront Hotel (acquired in April 2004);
- The Fairmont Kea Lani Maui (acquired in July 2004);
- The Newport Beach Marriott Hotel (major renovation started in July 2004);
- Mountain Shadows Resort (temporarily closed in September 2004);
- Scottsdale Marriott at McDowell Mountains (acquired in September 2004);
- Atlanta Marquis (major renovation started August 2005); and
- New Orleans Marriott (property damage and business interruption from Hurricane Katrina in August 2005).

In addition, the operating results of the thirteen hotels we disposed of in 2005 and 2004 are also not included in comparable hotel results for the periods presented herein. Moreover, because these statistics and operating results are for our full-service hotel properties, they exclude results for our non-hotel properties and leased limited-service hotels.

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

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

- Pacific—California, Hawaii, Oregon and Washington;
- Mountain—Arizona and Colorado;
- North Central—Illinois, Indiana, Michigan, Minnesota, Missouri and Ohio;

- South Central—Louisiana, Tennessee and Texas;
- New England—Connecticut, Massachusetts and New Hampshire;
- Mid-Atlantic—Pennsylvania, New Jersey and New York;
- DC Metro—Maryland, Virginia and Washington, D.C.;
- Atlanta—Georgia and North Carolina;
- Florida—Florida; and
- International—Canada and Mexico.

Property types consist of the following:

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

The following tables set forth performance information for our comparable full service hotels by geographic region and property type for year-to-date 2005 and 2004:

Comparable by Region

	As of September 9, 2005		Year-to-date ended September 9, 2005			Year-to-date ended September 10, 2004			
	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentages	RevPAR	Average Room Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Pacific	20	11,035	$170.81	77.9%	$133.11	$160.32	75.6%	$121.26	9.8%
Florida	11	7,027	177.40	74.8	132.65	166.53	73.5	122.33	8.4
Mid-Atlantic	10	6,720	195.12	79.1	154.29	178.16	77.6	138.28	11.6
North Central	13	4,923	129.17	67.1	86.67	119.33	68.6	81.82	5.9
DC Metro	11	4,661	177.98	78.3	139.41	160.16	75.5	120.87	15.3
Atlanta	12	4,265	150.30	68.2	102.50	145.56	68.7	99.97	2.5
South Center	6	3,526	133.74	76.7	102.60	125.32	76.4	95.78	7.1
New England	6	3,032	151.15	71.4	107.98	145.56	73.2	106.57	1.3
Mountain	5	1,940	111.24	64.4	71.62	104.33	60.4	63.04	13.6
International	5	1,953	131.45	72.2	94.95	120.72	72.8	87.83	8.1
All Regions	99	49,082	163.17	74.5	121.55	151.75	73.4	111.44	9.1

Comparable by Property Type

	As of September 9, 2005		Year-to-date ended September 9, 2005			Year-to-date ended September 10, 2004			
	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentages	RevPAR	Average Room Rate	Average Occupancy Percentages	RevPAR	Percent Change in RevPAR
Urban	39	22,874	$176.35	$ 77.5%	$136.69	$164.23	75.9%	$124.62	9.7%
Suburban	34	12,492	131.87	68.6	90.44	122.47	67.5	82.71	9.3
Airport	16	7,328	120.53	76.0	91.62	112.22	75.6	84.85	8.0
Resort/Conference	10	6,388	220.93	73.5	162.49	204.98	73.8	151.35	7.4
All Types	99	49,082	163.17	74.5	121.55	151.75	73.4	111.44	9.1

Of the 111 full-service hotels that we owned on December 31, 2004, 103 have been classified as comparable hotels for 2004 versus 2003 comparisons. The operating results of the following eight hotels that we owned as of December 31, 2004 are excluded from comparable hotel results for these periods:

- The JW Marriott, Washington, D.C. (consolidated in our financial statements beginning in the second quarter of 2003);
- The Hyatt Regency Maui Resort and Spa (acquired in November 2003);
- The Memphis Marriott (construction of a 200-room expansion started in 2003 and completed in 2004);
- The Embassy Suites Chicago Downtown-Lakefront Hotel (acquired in April 2004);
- The Fairmont Kea Lani Maui (acquired in July 2004);
- The Newport Beach Marriott Hotel (major renovation started in July 2004);
- The Mountain Shadows Resort Hotel (temporarily closed in September 2004); and
- The Scottsdale Marriott at McDowell Mountains (acquired in September 2004).

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

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

Comparable by Region

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

Comparable by Property Type

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

Please note that the comparable properties are different for each table as set forth in our definition of comparable properties above. The following statistics are for all of our full-service properties for year-to-date September 9, 2005 and September 10, 2004 and for the year ended December 31, 2004 and 2003, respectively, and the results of operations for four hotels sold in 2005, for nine hotels sold in 2004 and eight hotels sold in 2003 prior to their disposition:

	Year-to-date ended	
	September 9, 2005	September 10, 2004
Average Room Rate	$ 164.46	$ 148.53
Average Occupancy	73.7%	73.3%
RevPAR	$ 121.22	$ 108.90

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

Liquidity and Capital Resources

Cash Requirements

Host uses cash primarily for acquisitions, capital expenditures, debt payment and dividends to stockholders. As a REIT, Host is required to distribute to its stockholders at least 90% of its taxable income. Funds used by Host to make these distributions are provided from Host LP. We depend primarily on external sources of capital to finance future growth.

Cash Balances. As of September 9, 2005, we had $402 million of cash and cash equivalents, which was an increase of $55 million from December 31, 2004. The increase is primarily attributable to the net proceeds from the sale of four hotels in January and the sale of 85% of our interest in CBM Joint Venture LLC in March. On September 30, 2005, we acquired the Hyatt Regency, Washington, D.C. on Capitol Hill with approximately $274 million in available cash. As a result, we have reduced our cash balances to the $100 million to $150 million level that we have historically maintained based on the flexibility and capacity provided by our credit facility and the continuing growth of the economy.

As of September 9, 2005, we also had $165 million of cash which was restricted as a result of lender requirements (including reserves for debt service, real estate taxes, insurance, as well as cash collateral and excess cash flow deposits). The restricted cash balance includes $68 million and $37 million as of September 9, 2005 and December 31, 2004, respectively, which are held in escrow in accordance with restrictive debt covenant requirements (see “Mortgage Debt” below). The conditions necessary to release these escrowed funds were met at the end of the third quarter and on October 31, 2005 escrowed funds of approximately $71 million were released to us. The remaining restricted cash balances do not have a significant effect on our liquidity.

We have approximately $195 million of debt that will mature prior to 2007. However, $88 million of this debt can be extended for three one-year terms if certain conditions are met. We also have scheduled principal repayments totaling approximately $18 million for the fourth quarter of 2005. We believe we have sufficient cash, or availability under our line of credit, to deal with our near-term maturities, as well as any decline in the cash flow from our business.

On October 14, 2005, we drew approximately $100 million of our available capacity on our credit facility to retire the remaining mortgage on our Canadian properties and for general corporate purposes of which $80 million was repaid during the fourth quarter with the release of the restricted cash discussed above and available cash.

Debt Repayments and Refinancings. Reducing future interest payments and leverage remains a key management priority. With the proceeds from asset sales and the insurance proceeds received for the New York Marriott World Trade Center hotel, we repaid or redeemed a total of approximately $400 million of debt as of September 9, 2005. We also made $104 million of scheduled principal payments as of September 9, 2005. In addition, we refinanced approximately $830 million of our debt in 2004 and $609 million of our debt in the first three quarters of 2005. The combined effect of the transactions during 2004 and the first three quarters of 2005 lowered our average interest rate by approximately 60 basis points since 2003 to 7.0%.

We may continue to redeem or refinance senior notes, our Convertible Subordinated Debentures and mortgage debt from time to time to take advantage of favorable market conditions. We may purchase senior notes and Convertible Subordinated Debentures for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. Repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Any refinancing or retirement before the maturity date would affect earnings and FFO per diluted unit, as defined below, as a result of the payment of any applicable call premiums and the acceleration of previously deferred financing costs. During 2004, we incurred interest expense resulting from the payment of call premiums of approximately $40 million and the acceleration of deferred financing costs and original issue discounts totaling approximately $14 million. For the year-to-date 2005, we incurred interest expense resulting from the payment of call premiums of $27 million and the acceleration of deferred financing costs totaling $3 million.

Capital Expenditures. Typically, our renewal and replacement capital expenditures range from $200 million to $250 million on an annual basis. Based on the improved economy we increased spending to approximately $206 million, in 2004 compared to approximately $181 million in 2003, where we had reduced our capital expenditures based on our assessment of the operating environment, including delaying certain projects due to the start of the war in Iraq, and to preserve capital. As of September 9, 2005, our renewal and replacement capital expenditures for the year were approximately $147 million. We expect total renewal and replacement capital expenditures for 2005 to be approximately $250 million to $270 million. Our renewal and replacement capital expenditures are generally funded by the furniture, fixture and equipment funds established at certain of our hotels (typically funded with approximately 5% of property revenues) and by our available cash.

During 2004, we also spent approximately $44 million on repositioning/return on investment (ROI) projects, and for year-to-date 2005, we spent approximately $46 million in repositioning/ROI projects. These projects include, for example, expanding ballroom, spa or conference facilities. In addition, we will continue to seek opportunities to enhance the value of our portfolio by identifying and executing strategies that capitalize on alternative uses of our assets, such as the development of timeshare or condominium units on excess land or the conversion of existing rooms to timeshare or condominium units. ROI projects in process include the renovation and repositioning of the Newport Beach Marriott Hotel, which is expected to be completed in December 2005 at a cost of approximately $60 million and will include the addition of a spa and 20 new luxury suites, redesigned guest rooms, a new restaurant concept and updated meeting space. We also recently announced a commitment to invest approximately $60 million for the development of an exhibit hall for the Marriott Orlando World Center hotel. In addition, we are pursuing the development of 120 timeshare units on a beachfront parking lot at the Hyatt Regency Maui Resort and Spa. We expect to spend a total of approximately $110 million to $130 million on ROI projects in 2005. These projects have historically generated strong returns and over the next several years we also expect to spend $200 to $400 million on such investments.

Acquisitions. Acquisitions in 2004 and 2005 were comprised of:

- the July 2004 acquisition of the 450-suite Fairmont Kea Lani Maui, a luxury resort hotel located on 21 acres of Wailea's Polo Beach, for $355 million;
- the September 2004 acquisition of the 270-suite Scottsdale Marriott at McDowell Mountains for approximately $58 million, $34 million of which was funded through the assumption of the existing mortgage debt on the hotel;
- the May 2004 acquisition of the 455-suite Chicago Embassy Suites Downtown-Lakefront for $89 million;
- during 2004 we also purchased a retail building adjacent to one of our hotels and the land under the JW Marriott Hotel at Lenox in Atlanta, which we previously leased, for a combined total of approximately $30 million; and
- the September 2005 acquisition of the 834-room Hyatt Regency Washington, D.C. on Capitol Hill for approximately $274 million.

We remain interested in pursuing single asset and portfolio acquisitions, both domestically and abroad. We believe that there will continue to be opportunities in the near term and over the next several years to acquire assets that are consistent with our target profile of upper-upscale and luxury properties in urban and resort/convention locations where further large scale development is limited. The pending acquisition of the Starwood portfolio is an example of execution of this strategy. See the discussion of the Merger in "Recent Events."

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

Sources and Uses of Cash

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

Cash Provided by Operations. Our cash provided by operations for year-to-date 2005 increased $103 million to $309 million from $206 million for year-to-date 2004, due primarily to the increase in operating profit in 2005. Our cash provided by operations decreased $10 million to $360 million for 2004 from $370 million for 2003. Cash from operations in 2003 included $156 million in business interruption proceeds related to the disposition of the New York Marriott World Trade Center hotel. Excluding this transaction, cash provided by operations increased approximately $146 million in 2004.

Cash Provided by or Used in Investing Activities. Our primary investing activities for year-to-date 2005 were $193 million for capital expenditures. See "Cash Requirements—Capital Expenditures" above. Cash used in investing activities for 2004 was $501 million compared to $153 million for 2003. Cash used in investing activities for the first three quarters of 2005 was $34 million compared to $487 million over the same period in

2004. Activity for 2004 primarily included the acquisition of three hotel properties and other assets for total cash expenditures of approximately $503 million, the net proceeds of approximately $246 million from the sale of nine non-core properties, and capital expenditures at our properties of approximately $250 million. Activity for year-to-date 2005 primarily included the disposition of four hotels and renewal and replacement capital expenditures. In addition to the sales listed below, we believe that dispositions for the remainder of 2005 and the first quarter of 2006 will be approximately $150 million to $250 million. The net proceeds from any dispositions will be used to repay debt, fund acquisitions or repositioning/ROI projects or for general corporate purposes.

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

Transaction Date		Description of Transaction	(Sale Investment Price)
Acquisitions			
September	2005	Purchase of Hyatt Regency on Capitol Hill, Washington, D.C. (3)	$ (274)
September	2004	Purchase of the 270-room Scottsdale Marriott at McDowell Mountains (1)	(58)
July	2004	Purchase of the 450-suite Fairmont Kea Lani	(355)
May	2004	Purchase of the 455-room Embassy Suites Lakefront, Chicago	(89)
November	2003	Purchase of the 806-room Hyatt Regency Maui Resort and Spa	(321)
June	2003	Acquisition of the remaining interests in the JW Marriott in Washington, D.C. (2)	(98)
		Total acquisitions	$ (1,195)
Dispositions			
October	2005	Sale of Charlotte Executive Park Marriott (3)	$ 21
March	2005	Sale of 85% of our interest in CBM Joint Venture LLC	92
January	2005	Sale of Torrance Marriott	62
January	2005	Sale of Hartford Marriott at Farmington, Tampa Westshore Marriott and Albuquerque Marriott	66
December	2004	Sale of the Bethesda Marriott	45
December	2004	Sale of the Salt Lake City Marriott	50
May	2004	Sale of the Dallas/Fort Worth Airport Marriott	59
January	2004	Sale of the Mexico City Airport Marriott	30
January	2004	Sale of the Atlanta Northwest Marriott, Detroit Romulus Marriott and the Detroit Southfield Marriott, Atlanta Marriott Norcross and the Fullerton Marriott	70
December	2003	Insurance recovery from the New York Marriott World Trade Center and New York Marriott Financial Center hotels	372
December	2003	Sale of the Williamsburg Marriott, Oklahoma City Marriott and the Plaza San Antonio Marriott	75
November	2003	Sale of the Jacksonville Marriott	17
July	2003	Sale of Norfolk Waterside Marriott, Oklahoma City Waterford Marriott and Palm Beach Gardens Marriott	71
January	2003	Sale of Ontario Airport Marriott	26
		Total dispositions	$ 1,056

(1) Investment price includes the assumption of $34 million of mortgage debt.
(2) Investment price includes the assumption of $95 million of mortgage debt.
(3) Transaction occurred subsequent to September 9, 2005, the end of our third quarter.

Cash Used in and Provided by Financing Activities. For year-to-date 2005, distribution payments on our preferred and common OP units totaled $92 million and scheduled principal repayments totaled $43 million. Cash used in financing activities, net, was $276 million for 2004. Cash provided by financing activities, net, was $186 million for 2003. During 2004, cash provided by financing activities included the issuance of common stock by Host for approximately $301 million and the issuance of debt securities and preferred OP units for approximately $935 million, while cash used in financing activities primarily consisted of debt prepayments of approximately $1.2 billion. The proceeds from the Host common stock offering were contributed to us in exchange for OP units. See the table below for additional information. In connection with the redemptions of senior notes in 2004, we were required to pay premiums totaling approximately $40 million in exchange for the right to retire this debt in advance of its maturity. We also recorded interest expense of $14 million for the acceleration of the related deferred financing fees and original issue discounts for the prepayment of the senior notes. The table below summarizes other significant debt (net of deferred financing costs) and equity transactions since January 2003:

Transaction Date		Description of Transaction	Transaction Amount
Debt			
May	2005	Prepayment of the 9% mortgage debt on two Ritz-Carlton hotels	$ (140)
April	2005	Discharge of the remaining 8 3/8% Series E senior notes	(20)
April	2005	Redemption of 7 7/8% Series B senior notes	(169)
March	2005	Redemption of 8 3/8% Series E senior notes	(280)
March	2005	Proceeds from the issuance of 6 3/8% Series N senior notes	639
January	2005	8.35% mortgage on the Hartford Marriott at Farmington assumed by buyer	(20)
December	2004	Partial prepayment of the 5.19% Canadian mortgage loan (1)	(34)
September	2004	Assumed 6.08% mortgage on the Scottsdale Marriott at McDowell Mountains hotel	34
September	2004	Redemption of 7 7/8% Series B senior notes	(336)
August	2004	Proceeds from the issuance of 7% Series L senior notes	345
May	2004	Redemption of 7 7/8% Series B senior notes	(65)
April	2004	Redemption of 7 7/8% Series B senior notes	(494)
March	2004	Proceeds from the issuance of 3.25% Exchangeable Senior Debentures due 2024	484
January	2004	Payment of the 12.68% mortgage on the Mexico Airport Marriott	(11)
January	2004	Prepayment of the 8.58% mortgage on the Hanover Marriott	(27)
January	2004	Redemption of the remaining 8.45% Series C senior notes	(218)
January	2004	Partial prepayment of the 9% mortgage on The Ritz-Carlton, Naples and Buckhead	(44)
December	2003	Partial prepayment of the 4.19% Canadian mortgage loan (1)	(32)
December	2003	Retired $429 million of 7 7/8% Series A senior notes	(429)
December	2003	Retired $282 million of 8.45% Series C senior notes	(282)
December	2003	Payment of the 4.9% mortgage on the World Trade Center hotel	(65)
November	2003	Issuance of 7 1/8% Series K senior notes due in 2013	725
September	2003	Refinancing proceeds from the 4.5% mortgage on the JW Marriott, Washington, D.C. (2)	88
September	2003	Repayment of the 8.77% mortgage on the JW Marriott, Washington, D.C.	(95)
August	2003	Retired a portion of 7 7/8% Series A senior notes due in 2005	(71)
April	2003	Partial prepayment of the 4.07% Canadian mortgage loan (1)	(7)
March	2003	Retired a portion of 9.25% senior notes due in 2007	(8)
January	2003	Repayment of the 8.03% mortgage on The Ritz-Carlton, Naples Buckhead Loan	(17)
Ytd. 2005/ 2004/2003		Principal amortization	(156)
		Net debt transactions	$ (705)

Transaction Date		Description of Transaction	Transaction Amount
Equity			
May	2005	Redemption of 4 million units of 10% Class B preferred units	$ (101)
August	2004	Redemption of 4.16 million units of 10% Class A preferred units	(104)
May/June	2004	Proceeds from the issuance of approximately 4 million units of 8 7/8% Class E preferred units	98
June	2004	Proceeds from the issuance of 25 million common OP units	301
October	2003	Proceeds from the issuance of 23.5 million common OP units	250
August	2003	Proceeds from the issuance of 27.5 million common OP units	251
		Net equity transactions	$ 695

(1) The Canadian mortgage has a floating interest rate based on LIBOR plus 275 basis points. The interest rates shown reflect the rate as of the date of the transactions.

(2) The JW Marriott, Washington, D.C. has a floating interest rate based on LIBOR plus 210 basis points. The rate shown is the rate as of December 31, 2004.

Financial Condition

General

As of September 9, 2005, our total debt was $5.5 billion. The weighted average interest rate of our debt was approximately 7.0% and the weighted average maturity was 6.9 years. Additionally, approximately 85% of our debt has a fixed rate of interest. Over time, we expect to increase the proportion of our floating rate debt in our capital structure to 20% to 25% of our total debt. In general, we seek to limit near term maturities and maintain an average maturity of no less than five years, although there can be no assurances that we will achieve this objective. We may also make exceptions to these objectives to take advantage of market conditions.

As of September 9, 2005 and December 31, 2004, our debt was comprised of:

	September 9, 2005	December 31, 2004
Series B senior notes, with a rate of 7 7/8% due August 2008	$ 136	$ 304
Series E senior notes, with a rate of 8 3/8% due February 2006	—	300
Series G senior notes, with a rate of 9 1/4% due October 2007 (1)	237	243
Series I senior notes, with a rate of 9 1/2% due January 2007 (2)	455	468
Series K senior notes, with a rate of 7 1/8% due November 2013	725	725
Series M senior notes, with a rate of 7% due August 2012	346	346
Series O senior notes, with a rate of 6 3/8% due March 2015	650	—
Exchangeable Senior Debentures, with a rate of 3.25% due 2008	492	491
Senior notes, with an average rate of 9 3/4%, maturing through 2012	13	13
Total senior notes	3,054	2,890
Credit facility	—	—
Mortgage debt (non-recourse) secured by $2.8 billion of real estate assets, with an average interest rate of 7.7% at September 9, 2005 and December 31, 2004	1,858	2,043
Convertible debt obligation to Host Marriott Corporation	492	492
Other	97	98
Total debt	$ 5,501	$ 5,523

(1) Includes the fair value of the interest rate swap agreements of $(5) million and $1 million as of September 9, 2005 and December 31, 2004, respectively.

(2) Includes the fair value of the interest rate swap agreement of $5 million and $18 million as of September 9, 2005 and December 31, 2004, respectively.

Senior Notes

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

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

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

Exchangeable Senior Debentures. On March 16, 2004, we issued $500 million of 3.25% Exchangeable Senior Debentures and received net proceeds of $484 million, net of underwriting fees and expenses and an original issue discount. These debentures were issued under our senior notes indenture, and are the only series of senior notes that are exchangeable into Host common stock. The Exchangeable Senior Debentures mature on April 15, 2024 and are equal in right of payment with all of our unsubordinated debt. Interest is payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year beginning on April 15, 2004. We can redeem for cash all, or part of, the Exchangeable Senior Debentures at any time subsequent to April 19, 2009 upon 30 days notice at the applicable redemption price as set forth in the indenture. Holders have the right to require us to repurchase the Exchangeable Senior Debentures on April 15, 2010, April 15, 2014 and April 15, 2019 at the issue price. The Exchangeable Senior Debentures are currently exchangeable into shares of Host's common stock at a rate of 55.4024 shares for each $1,000 of principal amount of the debentures, or a total of approximately 28 million shares, which is equivalent to an exchange price of $18.05 per share of Host's common stock. Upon issuance of such shares by Host, we will issue to Host the number of OP units equal to the number of shares of common stock issued by Host in exchange for the Exchangeable Senior Debentures. The exchange rate may be adjusted under certain circumstances, including the payment of common dividends by Host. Holders may exchange their Exchangeable Senior Debentures prior to maturity under certain conditions, including at any time at which the closing sale price of Host's common stock is more than 120% of the exchange price per share, for at least 20 of 30 trading days. The Exchangeable Senior Debentures and the common stock issuable upon exchange of the debentures have not been registered under the Securities Act and may not be offered or sold except to qualified institutional buyers, as defined. Host has a shelf registration statement that is currently effective with respect to the resale of its common stock issuable upon exchange of the debentures.

Convertible Debt Obligation to Host Marriott Corporation

The obligation for the $492 million of 6 3/4% convertible subordinated debentures, or the Convertible Subordinated Debentures, as of September 9, 2005, has been included in these financial statements as our debt because upon Host's conversion to a REIT, we assumed primary liability for repayment of the Convertible Subordinated Debentures of Host underlying the Convertible Preferred Securities (defined below) of the Host Marriott Financial Trust, or the Issuer, a wholly-owned subsidiary trust of Host. The common securities of Host Marriott Financial Trust were not contributed to us and therefore Host Marriott Financial Trust is not consolidated by us. Upon conversion by a Convertible Preferred Securities holder, Host will issue shares of its common stock which will be delivered to such holder. Upon the issuance of such shares by Host, we will issue to Host the number of OP units equal to the number of shares of common stock issued by Host in exchange for the Convertible Subordinated Debentures.

As of September 9, 2005, Host Marriott Financial Trust held 9.5 million shares of 6 3/4% convertible quarterly income preferred securities, or the Convertible Preferred Securities, with a liquidation preference of $50 per share (for a total liquidation amount of $475 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Issuer. The payment of distributions out of moneys held by the Issuer and payments on liquidation of the Issuer or the redemption of the Convertible Preferred Securities are guaranteed by us to the extent the Issuer has funds available therefor. This guarantee, when taken together with our obligations under the indenture pursuant to which the Convertible Subordinated Debentures were issued, our obligations under the Trust Agreement and its obligations under the indenture to pay costs, expenses, debts and liabilities of the Issuer (other than with respect to the Convertible Preferred Securities) provides a full and unconditional guarantee of amounts due on the Convertible Preferred Securities. Proceeds from the issuance of the Convertible Preferred Securities were invested in the Convertible Subordinated Debentures due December 2, 2026 issued by us. The Issuer exists solely to issue the Convertible Preferred Securities and its own common securities, or the Common Securities, and invest the proceeds there from in the Convertible Subordinated Debentures, which is its sole asset. Separate financial statements of the Issuer are not presented because of our guarantee described above; our management has concluded that such financial statements are not material to investors as the Issuer is wholly owned by Host and essentially has no independent operations.

Each of the Convertible Preferred Securities and the related debentures are convertible at the option of the holder into shares of Host common stock at the rate of 3.2537 shares per Convertible Preferred Security for a total of approximately 31 million shares, (equivalent to a conversion price of $15.367 per share of Host's common stock). The Trust will only convert Convertible Subordinated Debentures pursuant to a notice of conversion by a holder of Convertible Preferred Securities. The conversion ratio and price have been adjusted to reflect certain transactions including Host's conversion to a REIT. In addition, we have the right to terminate the conversion rights, upon 30 days advance notice, in the event the price of Host's common stock exceeds $18.44 (equal to 120% of the conversion price) for 20 trading days within a period of 30 consecutive trading days.

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

The Convertible Preferred Securities are redeemable at the Trust's option upon any redemption by us of the Convertible Subordinated Debentures after December 2, 1999. During 2005, the Convertible Preferred Securities can be redeemed at a price equal to 100.675% of the liquidation preference, or $50.3375 per security. Upon repayment at maturity or as a result of the acceleration of the Convertible Subordinated Debentures upon the

occurrence of a default, the Convertible Preferred Securities are subject to mandatory redemption. The Convertible Preferred Securities, as a potentially dilutive security, are evaluated in the calculation of earning per unit and FFO per diluted unit. The securities were dilutive for FFO per diluted unit for both fourth quarter 2004 and 2003, but not for full year 2004. We believe that the securities will be dilutive in 2005 to the extent our FFO per diluted unit exceeds approximately $1.04.

Credit Facility

General. On September 10, 2004, we entered into an amended and restated credit facility. The credit facility replaces our prior credit facility and provides aggregate revolving loan commitments in the amount of $575 million. The credit facility also includes sub-commitments for the issuance of letters of credit in an aggregate amount of $10 million and loans to certain of our Canadian subsidiaries in Canadian Dollars in an aggregate amount of $150 million. The credit facility has an initial scheduled maturity in September 2008. We have an option to extend the maturity for an additional year if certain conditions are met at the time of the initial scheduled maturity. We also have the option to increase the amount of the credit facility by up to $100 million to the extent that any one or more lenders, whether or not currently party to the credit facility, commits to be a lender for such amount. As of December 1, 2005, we had drawn approximately $20 million outstanding under our credit facility.

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

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

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

default of the credit facility if we do not satisfy the financial covenants and we do not lose the potential to draw under the amended credit facility in the future if we were ever to come back into compliance with the financial covenants. We are in compliance with all our covenants as of September 9, 2005.

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

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

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

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

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

Mortgage Debt

General. As of September 9, 2005, we had 25 assets that were secured by mortgage debt. Substantially all of our mortgage debt is recourse solely to specific assets except in instances of fraud, misapplication of funds and other customary recourse provisions. As of September 9, 2005, secured debt represented approximately 34% of our total debt and had an average interest rate of 7.72% and an average maturity of 4.5 years. Over time, we expect to reduce the amount of our secured debt as a percentage of our total debt. We may refinance secured debt with other financing alternatives, such as senior notes, although there can be no assurances that we will achieve this objective.

As a result of the decline in operations of our properties in 2002 and 2003, restrictive covenants on eight of our hotel properties secured by a $571 million mortgage loan, which we refer to as the CMBS Loan, were triggered. These hotel properties are, the New York Marriott Marquis, the San Francisco Airport Hyatt Regency, the Cambridge Hyatt Regency, the Reston Hyatt Regency, the Boston Hyatt Regency, the Drake Hotel New York, the Westin Buckhead Atlanta, and the Swissôtel Chicago, which we refer to as the CMBS Portfolio. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS Portfolio after payment of debt service if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. This provision was triggered beginning in the third quarter of 2002 and remains in effect until the CMBS Portfolio generates the necessary minimum cash flow for two consecutive quarters, at which point, the cash that has been

escrowed will be returned to us. As of the end of the third quarter 2005, operating cash flow from these properties for the past two quarters met the levels required to release the escrowed funds under the CMBS loan and on October 31, 2005 escrowed funds in the amount of approximately $71 million were released to us.

The following table summarizes our outstanding debt and scheduled amortization and maturities related to mortgage and other debt as of September 9, 2005 (in millions):

	Balance as of September 9, 2005	2005	2006	2007	2008	2009	Thereafter
Mortgage Debt							
CMBS Loan, 7.54%, due 8/1/2009 (1)	$ 554	$ 7	$ 24	$ 26	$ 28	$469	$ —
Orlando Marriott World Center, 7.48%, due 1/1/2008	219	1	4	4	210	—	—
San Diego Marriott, 8.45%, due 7/1/2009	184	1	3	3	3	174	—
Host Hotel Properties II, 8.22%, due 10/11/2017 (2)(3)	176	2	9	8	7	7	143
Atlanta Marriott Marquis, 7.4%, due 2/11/2023 (4)	143	2	4	4	4	5	124
Desert Springs Marriott Resort and Spa, 7.8%, due 12/11/2022 (4)	89	—	3	3	3	3	77
Harbor Beach Marriott, 8.58%, due 3/1/2007	90	1	2	87	—	—	—
Boston Copley Marriott, 8.39%, due 6/1/2006	86	1	85	—	—	—	—
JW Marriott Washington, D.C., 5.1%, due 9/15/2006 (5)	88	—	88	—	—	—	—
Philadelphia Convention Center, 8.49%, due 4/1/2009	80	1	2	2	2	73	—
Other mortgage debt (6)	149	2	24	37	37	22	27
Total mortgage debt	1,858	18	248	174	294	753	371
Other Debt							
Philadelphia Airport industrial revenue bonds, 7 3/4%, due 12/1/2017	40	—	—	—	—	—	40
Capital leases and other (7)	57	3	3	3	—	—	48
Total other debt	97	3	3	3	—	—	88
Total mortgage and other debt	$ 1,955	$ 21	$251	$177	$294	$753	$ 459

(1) This mortgage debt is secured by eight hotel properties and has certain restrictive covenants.

(2) This mortgage debt is secured by first mortgages on three hotels, as well as a pledge of our limited partnership interest in the Santa Clara Partnership.

(3) Beginning in 2007, the interest rate on this loan increases a minimum of 200 basis points and all excess cash (as defined in the loan agreement) generated by the partnership is applied to principal; however, the loan can be repaid without a premium or penalty on that date. The amortization presented in this table is the minimum principal payment considering the increase in interest rate, but does not include additional principal payments based on excess cash flow.

(4) Beginning in 2010, the interest rate on these loans increases a minimum of 200 basis points and all excess cash (as defined in the loan agreement) generated by the partnerships that own these two properties is applied to principal; however, the loans can be repaid without a premium or penalty on that date. The amortization presented is the minimum principal payment considering the increase in interest rate, but does not include additional principal payments based on excess cash flow.

(5) This floating rate mortgage is based on LIBOR plus 2.10%. The rate shown is as of September 9, 2005. Also, this mortgage has an interest rate cap derivative with a maximum rate of 8.1%.

(6) Other mortgage debt consists of mortgage debt amounts that are less than $40 million, have an average interest rate of 7.7% at September 9, 2005 and mature through 2017.

(7) Capital leases and other consists of five loans with an average interest rate of 7.36% and mature through 2016 as well as capital leases with varying interest rates and maturity dates.

Credit Ratings

Currently, we have $3.1 billion of senior notes outstanding and $250 million of Host preferred stock and $492 million of Convertible Preferred Securities that are rated by Moody's Investors Service and Standard & Poor's. On November 8, 2005, Standard and Poor's upgraded the rating on our senior debt from a B+ rating to a BB- rating and upgraded the rating on Host's preferred stock and Convertible Preferred Securities from a CCC+ rating to a B- rating. On October 13, 2005, Moody's upgraded our senior notes debt from a Ba3 rating to a Ba2 rating, Host's preferred stock from a B2 rating to a B1 rating and the Convertible Preferred Securities from a B2 rating to a Ba3 rating. While we have no senior note maturities until 2006, if our operations or our credit ratios were to decline, the ratings on our securities could be reduced. If we were unable to subsequently improve our credit ratings, our cost to issue additional senior notes, either in connection with a refinancing or otherwise, or to issue additional preferred stock would likely increase.

Distribution Policy

Host is required to distribute to stockholders at least 90% of its taxable income in order to qualify as a REIT, including taxable income recognized for tax purposes but with regard to which we do not receive corresponding cash. Funds used by Host to pay dividends on its common and preferred stock are provided through distributions from Host LP. For every share of common and preferred stock of Host, Host LP has issued to Host a corresponding common OP unit and preferred OP unit. Host is the owner of substantially all of the preferred OP units and approximately 95% of the common OP units. The remaining 5% of the common OP units are held by various third-party limited partners.

As a result of the minority position in Host LP common OP units, these holders share, on a pro rata basis, in amounts being distributed by Host LP. As a general rule, when Host pays a common or preferred dividend, Host LP pays an equivalent per unit distribution on all common or corresponding preferred OP units. For example, if Host paid a five cent per share dividend on its common stock, it would be based on payment of a five cent per unit distribution by Host LP to Host as well as other common OP unit holders. For these reasons, investors should also take into account the 5% minority position in Host LP, and the requirement that they share pro rata in distributions from Host LP, when analyzing dividend payments by Host to its stockholders.

Host's current policy on common dividends is generally to distribute at least 100% of its taxable income, unless otherwise contractually restricted. Host currently intends to continue paying dividends on its preferred stock, regardless of the amount of taxable income, unless similarly contractually restricted. While we are not currently restricted in our ability to pay distributions to Host, during the second half of 2002 and through the first quarter of 2004, we were limited in our ability to pay distributions to Host, except to the extent necessary to maintain Host's REIT status.

On September 16, 2005, Host's Board of Directors declared a cash dividend of $0.11 per share for its common stock. The dividend was paid on October 17, 2005 to stockholders of record as of September 30, 2005. Accordingly, we made a $0.11 distribution per common OP unit. The amount of any future common distribution will be determined by Host's Board of Directors.

On September 16, 2005, Host's Board of Directors also declared a quarterly cash dividend of $0.625 per share for its Class C preferred stock and a cash dividend of $0.5546875 per share for its Class E preferred stock. The dividends were paid on October 17, 2005 to preferred stockholders of record as of September 30, 2005. Accordingly, we made a similar distribution on our Class C and E preferred units.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

We are party to various transactions, agreements or other contractual arrangements with unconsolidated entities (which we refer to as "off-balance sheet arrangements") under which we have certain contingent liabilities and guarantees. As of September 9, 2005, we are party to the following material off-balance sheet arrangements:

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

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

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

- We remain contingently liable for rental payments on certain divested non-lodging properties. These primarily represent divested restaurants that were sold subject to our guarantee of the future rental payments. The aggregate amount of these future rental payments is approximately $29 million as of September 9, 2005.
- In 1997, we owned Leisure Park Venture Limited Partnership, which owns and operates a senior living facility. We no longer have an ownership interest in the partnership, but we remain obligated under a guarantee of interest and principal with regard to $14.7 million of municipal bonds issued by the New Jersey Economic Development Authority through their maturity in 2027. However, to the extent we are required to make any payments under the guarantee, we have been indemnified by Barceló Crestline Corporation, who, in turn, is indemnified by the current owner of the facility.
- In connection with the sale of three hotels in the fourth quarter of 2004 and January 2005, we remain contingently liable for the amounts due under the respective ground leases. The future minimum lease payments are approximately $20 million through the full term of the leases, including renewal options. We believe that any liability related to these ground leases is remote, and in each case, we have been indemnified by the purchaser of the hotel.

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

Contractual Obligations

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

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

(1) The amounts shown include amortization of principal, debt maturities and estimated interest payments. Interest payments have been included in the long-term debt obligations based on the weighted average interest rate for both fixed and variable debt. For variable rate debt, we have used the applicable percentage interest rate as of December 31, 2004.

(2) Long-term debt obligations excludes $20 million of mortgage debt, related to the Hartford Marriott Farmington, that was classified as liabilities associated with assets held for sale at December 31, 2004. The hotel was sold on January 6, 2005.

(3) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants of $.2 million, payable to us under non-cancelable subleases. The lease payments also include interest payable of $2 million.

(4) Future minimum lease payments have not been reduced by aggregate minimum sublease rentals from restaurants and the HPT subleases of $27 million and $550 million, respectively, payable to us under non-cancelable subleases.

(5) Our only purchase obligations consist of commitments for capital expenditures at our hotels. Under our contracts, we have the ability to defer some of these expenditures into later years and some of the current year amount reflects prior year contracts that were deferred or not completed. See “Capital Expenditures.”

(6) Under terms of our management agreements, we have deferred payment of management fees to our hotel managers for some of our properties that have not achieved the required income thresholds for payment of owner’s priority to us. The timing of the payments, if any, is based on future operations, the termination of the management agreement or the sale of the hotel and is therefore not determinable.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates:

- *Impairment testing*. We are required by GAAP to record an impairment charge when we believe that one or more of our hotels has been impaired, whereby, future undiscounted cash flows for the hotel would be less than the net book value of the hotel. For impaired assets, we record an impairment charge

when a property's fair value less selling costs is less than its net book value. We test for impairment in several situations, including when current or projected cash flows are less than historical cash flows, when it becomes more likely than not that a hotel will be sold before the end of its previously estimated useful life, as well as whenever an asset is classified as "held for sale" or events or changes in circumstances indicate that a hotel's net book value may not be recoverable. In the evaluation of the impairment of our hotels, we make many assumptions and estimates, including:

- projected cash flows,
- holding period,
- expected useful life
- future capital expenditures
- fair values, including consideration of capitalization rates, discount rates and comparable selling prices.

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

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

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

- *Depreciation and Amortization Expense.* Depreciation expense is based on the estimated useful life of our assets and amortization expense for leasehold improvements is the shorter of the lease term or the estimated useful life of the related assets. The lives of the assets are based on a number of assumptions including cost and timing of capital expenditures to maintain and refurbish the assets, as well as specific market and economic conditions. While management believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income (loss) or the gain or loss on the sale of any of our hotels.
- *Valuation of Deferred Tax Assets.* We have approximately $97 million, net of a valuation allowance of $14 million, in consolidated deferred tax assets as of September 9, 2005. The objective of financial accounting and reporting standards for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in a company's financial statements or tax returns. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the $97 million in deferred tax assets in the future. When a determination is made that all, or a portion, of the deferred tax assets may not be realized, an increase in income tax expense would be recorded in that period.

- *Valuation of Foreign Currency and Derivative Contracts.* We had two interest rate swap agreements outstanding as of September 9, 2005. Our interest rate swap agreements with a fair market value of approximately ($342,000) as of September 9, 2005 have been designated as fair value hedges, as described in Note 1 to our consolidated financial statements. While we intend to continue to meet the conditions for hedge accounting, if a particular interest rate swap does not qualify as highly effective, any change in the fair value of the derivative used as a hedge would be reflected in current earnings. Should any change in management strategy, or any other circumstance, cause an existing highly-effective hedge to become ineffective, the accumulated loss or gain in the value of the derivative instrument since its inception may be reclassified from the stockholders' equity section of the balance sheet to current net income (loss). We also have two interest rate cap agreements that are fair valued each quarter and the increase or decrease in fair value is recorded in net income (loss). We estimate the fair value of all of these instruments through the use of third party valuations, which utilize the market standard methodology of netting the discounted future cash receipts and the discounted expected cash payments. The variable cash flow streams are based on an expectation of future interest and exchange rates derived from observed market interest and exchange rate curves. The values of these instruments will change over time as cash receipts and payments are made and as market conditions change. Any event that impacts the level of actual and expected future interest or exchange rates will impact our valuations. The fair value of our existing foreign currency and derivatives is likely to fluctuate materially from year to year based on changing levels of interest and exchange rates and shortening terms to maturity.
- *Consolidation Policies.* Judgment is required with respect to the consolidation of partnership and joint venture entities in the evaluation of control, including assessment of the importance of rights and privileges of the partners based on voting rights, as well as financial interests that are not controllable through voting interests. Currently, we have investments in entities that in the aggregate own 123 hotel properties and other investments which we record using the equity method of accounting. These entities are considered to be voting interest entities. The debt on these investments is non-recourse to the company and the effect of their operations on our results of operations is not material. While we do not believe we are required to consolidate any of our current partnerships or joint ventures, if we were required to do so, then all of the results of operations and the assets and liabilities would be included in our financial statements. For further detail on our unconsolidated entities see Note 3 to our consolidated financial statements.

Application of New Accounting Standards

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

In connection with Host's conversion to a REIT, we assumed the employee obligations of Host. Upon the issuance of Host common stock under either of its two stock-based compensation plans, we will issue Host an equal number of OP units. Accordingly, these liabilities and related disclosures are included in our consolidated financial statements. In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, ("FAS 123R"), which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide

service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in FAS 123. Host adopted the fair value provisions of SFAS 123 in 2002, and, therefore has recognized the costs associated with all share-based payment awards granted after January 1, 2002. As a result, the provisions of FAS 123R are effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The adoption of this standard in 2006 will not have a material effect on our financial position and results of operations.

Reporting Periods

Reporting Periods for Consolidated Statement of Operations

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

Two consequences of the reporting cycle we have adopted are: (1) quarterly start dates will usually differ between years, except for the first quarter which always commences on January 1, and (2) our first and fourth quarters of operations and year-to-date operations may not include the same number of days as reflected in prior years. For example, set forth below are the quarterly start and end dates for 2005, 2004 and 2003. Note that the second and third quarters of each year both reflect twelve weeks of operations. In contrast, the first and fourth quarters reflect differing days of operations.

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

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

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

Reporting Periods for Hotel Operating Statistics and Comparable Hotel Results

In contrast to the reporting periods for our consolidated statement of operations, our hotel operating statistics (i.e., RevPAR, average daily rate and average occupancy) and our comparable hotel results are always

reported based on the reporting cycle used by Marriott International for our Marriott-managed hotels. This facilitates year-to-year comparisons, as each reporting period will be comprised of the same number of days of operations as in the prior year (except in the case of fourth quarters comprised of seventeen weeks (such as fiscal year 2002) versus sixteen weeks). This means, however, that the reporting periods we use for hotel operating statistics and our comparable hotel results may differ slightly from the reporting periods used for our statements of operations for the first and fourth quarters and the full year. Set forth below are the quarterly start and end dates for 2005, 2004 and 2003 that are used for our hotel operating statistics and comparable hotel results reported herein. Results from hotel managers reporting on a monthly basis are included in our operating statistics and comparable hotel results consistent with their reporting in our consolidated statement of operations.

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

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

Non-GAAP Financial Measures

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

FFO Per Diluted Unit

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

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

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

The following tables provide a reconciliation of net income (loss) available to common unitholders per unit to FFO per diluted unit (in millions, except per unit amounts):

Reconciliation of Net Income (Loss) Available to Common Unitholders to Funds From Operations per Diluted Unit

	Year-to-date ended					
	September 9, 2005			September 10, 2004		
	Income (Loss)	Units	Per Unit Amount	Income (Loss)	Units	Per Unit Amount
Net income (loss) available to common unitholders	$ 72	373.0	$ .19	$ (98)	354.4	$ (.28)
Adjustments:						
Gain on dispositions, net of taxes	(54)	—	(.14)	(20)	—	(.05)
Amortization of deferred gains, net	(5)	—	(.02)	(8)	—	(.03)
Depreciation and amortization	254	—	.69	251	—	.71
Partnership adjustments	3	—	—	16	—	.05
Adjustments for dilutive securities:						
Assuming distribution of common units for shares granted under the comprehensive stock plan less shares assumed purchased at average market price	—	2.4	—	—	2.1	—
Assuming conversion of Exchangeable Senior Debentures	13	27.7	(.02)	—	—	—
FFO per diluted unit (a)(b)	$ 283	403.1	$ .70	$ 141	356.5	$ .40

	Year ended December 31,					
	2004			2003		
	Income (Loss)	Units	Per Unit Amount	Income (Loss)	Units	Per Unit Amount
Net loss available to common unitholders	$ (42)	359.8	$ (.12)	$ (21)	307.2	$ (.07)
Adjustments:						
Gain on the disposition of the World Trade Center hotel	—	—	—	(56)	—	(.19)
Gain on dispositions, net	(59)	—	(.16)	(9)	—	(.03)
Amortization of deferred gains	(4)	—	(.01)	(4)	—	(.01)
Depreciation and amortization	364	—	1.01	375	—	1.22
Partnership adjustments	21	—	.06	24	—	.08
Adjustments for dilutive securities:						
Assuming distribution of common units for shares granted under the comprehensive stock plan less shares assumed purchased at average market price	—	3.0	(.01)	—	3.5	(.01)
Assuming conversion of Exchangeable Senior Debentures	15	21.7	—	—	—	—
FFO per diluted unit (a)(b)	$ 295	384.5	$ .77	$ 309	310.7	$ .99

(a) FFO per diluted unit in accordance with NAREIT is adjusted for the effects of dilutive securities. Dilutive securities may include units for shares granted under comprehensive stock plans, convertible debt securities, those preferred OP units held by minority partners and other minority interests that have the option to convert their limited partnership interest to common shares. No effect is shown for securities if they are anti-dilutive.

(b) The results for the periods presented were significantly affected by several transactions, the effect of which is shown in the tables below (in millions, except per unit amounts):

	Year-to-date ended			
	September 9, 2005		September 10, 2004	
	Net Income (Loss)	FFO	Net Income (Loss)	FFO
Senior notes redemptions and debt repayments (1)	$ (34)	$ (34)	$ (59)	$ (59)
Preferred OP unit redemption (2)	(4)	(4)	(6)	(6)
Gain on CBM Joint Venture LLC sale (3)	42	—	—	—
Gain on hotel dispositions	12	—	20	—
Total	$ 16	$ (38)	$ (45)	$ (65)
Per diluted unit	$ .04	$(.09)	$ (.13)	$(.18)

	Year ended December 31,			
	2004		2003	
	Net Income (Loss)	FFO	Net Income (Loss)	FFO
Senior notes redemptions and debt prepayments (1)	$ (59)	$ (59)	$ (36)	$ (36)
World Trade Center hotel insurance gain (4)	—	—	212	156
Loss on foreign currency forward contracts (5)	—	—	(18)	(18)
Class A preferred OP unit redemption (2)	(6)	(6)	—	—
Directors' and officers' insurance settlement (6)	—	—	7	7
Total	$ (65)	$ (65)	$ 165	$109
Per diluted unit	$ (.18)	$(.17)	$ .54	$ .34

(1) Represents call premiums and the acceleration of original issue discounts and deferred financing costs, as well as incremental interest during the call period for refinancings, included in interest expense in the consolidated statements of operations. We recognized these costs in conjunction with the prepayment of senior notes and mortgages during the periods presented.

(2) Represents the original issuance costs for preferred OP units, which was required to be charged against net income (loss) available to common unitholders in conjunction with the redemption of the Class B preferred OP units in the second quarter of 2005 and the redemption of the Class A preferred OP units in the third quarter of 2004. The adjustment in 2004 also includes the incremental dividends from the date of issuance of the Class E preferred OP units to the date of redemption of the Class A preferred OP units.

(3) Represents the gain, net of tax, on the sale of 85% of our interest in CBM Joint Venture LLC.

(4) As a result of the New York Marriott World Trade Center hotel insurance settlement in the fourth quarter of 2003, we recorded a gain of approximately $212 million, which is comprised of $156 million in post-2003 business interruption proceeds and $56 million from the disposition of the hotel. See the previous discussion of non-GAAP financial measures, which describes why we exclude the $56 million gain from FFO per diluted unit.

(5) During 2003, we made partial repayments of the Canadian mortgage debt, which resulted in certain of our forward currency hedge contracts being deemed ineffective for accounting purposes.

(6) During 2003, we recognized approximately $10 million of other income from the settlement of a claim that we brought against our directors' and officers' insurance carriers for reimbursement of defense costs and settlement payments incurred in resolving a series of related actions brought against us and Marriott International that arose from the sale of certain limited partnership units to investors prior to 1993. The effect on net loss and FFO is approximately $7 million due to income taxes on the proceeds.

Comparable Hotel Operating Results

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

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

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

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

Comparable Hotel Results(1)
(in millions, except hotel statistics)

	Year-to-date ended	
	September 9, 2005	September 10, 2004
Number of hotels	99	99
Number of rooms	49,082	49,082
Percent change in Comparable Hotel RevPAR	9.1%	—
Comparable hotel sales		
Room	$ 1,491	$ 1,371
Food and beverage	754	717
Other	167	157
Comparable hotel sales (2)	2,412	2,245
Comparable hotel expenses		
Room	364	345
Food and beverage	568	545
Other	103	99
Management fees, ground rent and other costs	802	760
Comparable hotel expenses (3)	1,837	1,749
Comparable hotel adjusted operating profit	575	496
Non-comparable hotel results, net (4)	61	49
Office building and limited service properties, net (5)	—	(1)
Depreciation and amortization	(254)	(242)
Corporate and other expenses	(45)	(43)
Operating profit	$ 337	$ 259

	Year ended December 31,	
	2004	2003
Number of hotels	103	103
Number of rooms	52,063	52,183
Percent change in Comparable Hotel RevPAR	7.3%	—
Comparable hotel sales		
Room	$ 2,045	$ 1,907
Food and beverage	1,102	1,043
Other	226	220
Comparable hotel sales (2)	3,373	3,170
Comparable hotel expenses		
Room	515	483
Food and beverage	823	784
Other	141	134
Management fees, ground rent and other costs	1,140	1,091
Comparable hotel expenses (2)	2,619	2,492
Comparable hotel adjusted operating profit	754	678
Non-comparable hotel results, net (4)	83	26
Comparable hotels sold during 2005	(14)	(12)
Office building and limited service properties, net (5)	2	1
Other income	1	12
Depreciation and amortization	(353)	(346)
Corporate and other expenses	(67)	(60)
Operating profit	$ 406	$ 299

(1) The reporting period for year-to-date 2005 is from January 1, 2005 to September 9, 2005 and for year-to-date 2004 is from January 3, 2004 to September 10, 2004.

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

	Year-to-date ended	
	September 9, 2005	September 10, 2004
Revenues per the consolidated statements of operations	$ 2,647	$ 2,452
Revenues of hotels held for sale	8	7
Non-comparable hotel sales	(224)	(181)
Hotel sales for the property for which we record rental income, net	35	31
Rental income for office buildings and limited service hotels	(54)	(53)
Adjustment for hotel sales for comparable hotels to reflect Marriott’s fiscal year for Marriott-managed hotels	—	(11)
Comparable hotel sales	$ 2,412	$ 2,245

	Year ended December 31,	
	2004	2003
Revenues per the consolidated statements of operations	$ 3,629	$ 3,278
Revenues of hotels sold during 2005	81	76
Non-comparable hotel sales	(292)	(137)
Hotel sales for the property for which we record rental income, net	47	46
Rental income for office buildings and limited service hotels	(80)	(75)
Other income	(1)	(12)
Adjustment for hotel sales for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	(11)	(6)
Comparable hotel sales	$ 3,373	$ 3,170

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

	Year-to-date ended	
	September 9, 2005	September 10, 2004
Operating costs and expenses per the consolidated statements of operations	$ 2,310	$ 2,193
Operating costs of hotels held for sale	7	6
Non-comparable hotel expenses	(162)	(133)
Hotel expenses for the property for which we record rental income	35	32
Rent expense for office buildings and limited service hotels	(54)	(54)
Adjustment for hotel expenses for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	—	(10)
Depreciation and amortization	(254)	(242)
Corporate and other expenses	(45)	(43)
Comparable hotel expenses	$ 1,837	$ 1,749

	Year ended December 31,	
	2004	2003
Operating costs and expenses per the consolidated statements of operations	$ 3,223	$ 2,979
Operating costs of hotels sold during 2005	67	64
Non-comparable hotel expenses	(210)	(112)
Hotel expenses for the property for which we record rental income	47	46
Rent expense for office buildings and limited service hotels	(78)	(74)
Adjustment for hotel expenses for comparable hotels to reflect Marriott's fiscal year for Marriott-managed hotels	(10)	(5)
Depreciation and amortization	(353)	(346)
Corporate and other expenses	(67)	(60)
Comparable hotel expenses	$ 2,619	$ 2,492

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

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

Exhibit 99.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Partners
Host Marriott, L.P.:

We have audited the accompanying consolidated balance sheets of Host Marriott, L.P. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule of real estate and accumulated depreciation. These consolidated financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

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

KPMG LLP

McLean, Virginia
February 23, 2005, except as to notes 4, 10, 15, 18 and 19,
which are as of November 14, 2005

HOST MARRIOTT, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003
(in millions)

	2004	2003
ASSETS		
Property and equipment, net	$7,274	$7,085
Assets held for sale	113	73
Notes and other receivables	7	54
Due from managers	75	62
Investments in affiliates	53	74
Deferred financing costs, net	70	82
Furniture, fixtures and equipment replacement fund	151	144
Other assets	157	134
Restricted cash	154	116
Cash and cash equivalents	347	764
Total assets	$8,401	$8,588
LIABILITIES AND PARTNERS' CAPITAL		
Debt		
Senior notes, including $491 million, net of discount, of exchangeable senior debentures as of December 31, 2004	$2,890	$3,180
Mortgage debt	2,043	2,205
Convertible debt obligation to Host Marriott Corporation	492	492
Other	98	101
	5,523	5,978
Accounts payable and accrued expenses	113	108
Liabilities associated with assets held for sale	26	2
Other liabilities	156	166
Total liabilities	5,818	6,254
Minority interest	86	89
Limited partnership interests of third parties at redemption value (representing 21.0 million units and 23.5 million units at December 31, 2004 and 2003, respectively)	363	290
Partners' capital		
General partner	1	1
Cumulative redeemable preferred limited partner	337	339
Limited partner	1,783	1,587
Accumulated other comprehensive income	13	28
Total partners' capital	2,134	1,955
	$8,401	$8,588

See Notes to Consolidated Financial Statements.

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

	2004	2003	2002
REVENUES			
Rooms	$2,147	$1,907	$1,959
Food and beverage	1,137	1,039	1,036
Other	238	220	237
Total hotel sales	3,522	3,166	3,232
Rental income	106	100	101
Other income	1	12	—
Total revenues	3,629	3,278	3,333
EXPENSES			
Rooms	534	482	481
Food and beverage	853	784	769
Hotel departmental expenses	979	884	856
Management fees	145	131	143
Other property-level expenses	292	292	284
Depreciation and amortization	353	346	339
Corporate and other expenses	67	60	45
Total operating costs and expenses	3,223	2,979	2,917
OPERATING PROFIT	406	299	416
Interest income	11	11	19
Interest expense	(484)	(521)	(492)
Net gains on property transactions	17	5	5
Loss on foreign currency and derivative contracts	(6)	(19)	(2)
Minority interest expense	(4)	(4)	(9)
Equity in earnings (losses) of affiliates	(16)	(22)	(9)
LOSS BEFORE INCOME TAXES	(76)	(251)	(72)
Benefit from (provision for) income taxes	10	13	(2)
LOSS FROM CONTINUING OPERATIONS	(66)	(238)	(74)
Income from discontinued operations	65	252	55
NET INCOME (LOSS)	(1)	14	(19)
Less: Distributions on preferred units	(37)	(35)	(35)
Issuance costs of redeemed Class A preferred units	(4)	—	—
NET LOSS AVAILABLE TO COMMON UNITHOLDERS	$ (42)	$ (21)	$ (54)
BASIC AND DILUTED LOSS PER COMMON UNIT:			
Continuing operations	$ (.30)	$ (.89)	$ (.38)
Discontinued operations	.18	.82	.19
BASIC AND DILUTED LOSS PER COMMON UNIT	$ (.12)	$ (.07)	$ (.19)

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2004, 2003 and 2002
(in millions)

Class A, B and C Preferred Units Outstanding	Common OP Units Outstanding		Preferred Limited Partner	General Partner	Limited Partner	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
14.1	261.4	Balance, December 31, 2001	$ 339	$ 1	$ 1,162	$ (5)	
—	—	Net loss	—	—	(19)	—	$ (19)
—	—	Other comprehensive income (loss):					
		Foreign currency translation adjustment	—	—	—	2	2
—	—	Foreign currency forward contracts	—	—	—	2	2
		Unrealized gain on HM Services common stock to net income	—	—	—	(1)	(1)
—	—	Comprehensive loss					$ (16)
—	0.5	Units issued to Host Marriott for the comprehensive stock and employee stock purchase plans	—	—	8	—	
—	1.8	Redemptions of limited partnership interests of third parties	—	—	13	—	
—	—	Distributions on Preferred Limited Partner Units	—	—	(35)	—	
—	—	Market adjustment to record Preferred OP Units and OP Units of third parties at redemption value	—	—	7	—	
14.1	263.7	Balance, December 31, 2002	339	1	1,136	(2)	
—	—	Net income	—	—	14	—	$ 14
		Other comprehensive income (loss):					
		Foreign currency translation Adjustment	—	—	—	34	34
		Foreign currency forward contracts	—	—	—	(23)	(23)
—	—	Realized loss on foreign currency forward contracts	—	—	—	18	18
—	—	Unrealized gain on HM Services common stock to net income	—	—	—	1	1
—		Comprehensive income					$ 44
—	1.4	Units issued to Host Marriott for the comprehensive stock and employee stock purchase plans	—	—	9	—	
—	4.2	Redemptions of limited partnership interests of third parties	—	—	23	—	
—	51.0	Issuances of common OP units	—	—	501	—	
—	—	Distributions on Preferred Limited Partner Units	—	—	(35)	—	
—	—	Market adjustment to record preferred OP Units and OP Units of third parties at redemption value	—	—	(61)	—	
14.1	320.3	Balance, December 31, 2003	339	1	1,587	28	

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME (LOSS)—(Continued)
Years Ended December 31, 2004, 2003 and 2002
(in millions)

Class A, B and C Preferred Units Outstanding	Common OP Units Outstanding		Preferred Limited Partner	General Partner	Limited Partner	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
—	—	Net loss	—	—	(1)	—	$ (1)
	—	Other comprehensive income (loss):					
		Foreign currency translation Adjustment	—	—	—	(15)	(15)
		Foreign currency forward contracts	—	—	—	1	1
—	—	Unrealized loss on HM Services common stock to net income	—	—	—	(1)	(1)
—	—	Comprehensive loss					$ (16)
—	2.4	Units issued to Host Marriott for the comprehensive stock and employee stock purchase plans	—	—	22	—	
—	2.6	Redemptions of limited partnership interests of third parties	—	—	19	—	
—	25.0	Issuances of common OP units	—	—	301	—	
4.0	—	Issuances of preferred OP units	98	—	—	—	
—	—	Distributions on common limited partner units	—	—	(20)	—	
(4.1)	—	Redemption of preferred OP units	(100)	—	(4)	—	
—	—	Distributions on Preferred Limited Partner Units	—	—	(37)	—	
—	—	Market adjustment to record preferred OP Units and OP Units of third parties At redemption value	—	—	(84)	—	
14.0	350.3	Balance, December 31, 2004	$ 337	$ 1	$ 1,783	$ 13	

See Notes to Consolidated Financial Statements.

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

	2004	2003	2002
OPERATING ACTIVITIES			
Net income (loss)	$ (1)	$ 14	$ (19)
Adjustments to reconcile to cash provided by operating activities:			
Discontinued operations:			
Gains on disposals	(52)	(65)	(12)
Depreciation	13	32	33
Depreciation and amortization	353	346	339
Amortization of deferred financing costs	16	17	16
Income taxes	(20)	(34)	—
Net gains on property transactions	(5)	(5)	(5)
Equity in losses of affiliates	16	22	9
Minority interest expense	4	4	9
Change in due from manager	(15)	17	(4)
Change in Canadian currency forward contracts	8	16	(2)
Change in accrued interest payable	9	(10)	11
Return of working capital from Marriott International	—	—	50
Changes in other assets	14	24	14
Changes in other liabilities	20	(8)	(65)
Cash provided by operations	360	370	374
INVESTING ACTIVITIES			
Proceeds from sales of assets, net	246	184	—
Disposition of World Trade Center hotel	—	185	—
Acquisitions	(503)	(324)	(117)
Distributions from equity investments	6	3	6
Capital expenditures:			
Renewals and replacements	(206)	(181)	(146)
Other investments	(44)	(20)	(34)
Return of escrow funds from Marriott International	—	—	75
Notes receivable collections	47	—	—
Other investments	(47)	—	—
Cash used in investing activities	(501)	(153)	(216)
FINANCING ACTIVITIES			
Issuances of debt	837	813	—
Financing costs	(16)	(16)	(8)
Debt prepayments	(1,230)	(1,007)	(13)
Scheduled principal repayments	(61)	(52)	(63)
Issuances of OP Units	301	501	1
Issuances of preferred OP Units	98	—	—
Redemption of preferred OP Units	(104)	—	—
Distributions on common OP Units	(20)	—	—
Distributions on preferred OP Units	(37)	(35)	(35)
Distributions to minority interests	(6)	(6)	(18)
Purchase of interest rate cap	—	—	(3)
Change in restricted cash	(38)	(12)	(10)
Cash provided by (used in) financing activities	(276)	186	(149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(417)	403	9
CASH AND CASH EQUIVALENTS, beginning of year	764	361	352
CASH AND CASH EQUIVALENTS, end of year	$ 347	$ 764	$ 361

See Notes to Consolidated Financial Statements.

Supplemental schedule of noncash investing and financing activities:

During 2004, 2003 and 2002, minority partners converted operating partnership units ("OP units") valued at $35 million, $41 million and $21 million, respectively, in exchange for approximately 2.6 million, 4.2 million and 1.8 million shares, respectively, of common stock in Host Marriott Corporation.

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

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

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

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

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

See Notes to Consolidated Financial Statements.

HOST MARRIOTT, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

Host Marriott, L.P., a Delaware limited partnership, or Host LP, operating through an umbrella partnership structure with Host Marriott Corporation, or Host Marriott, as the sole general partner, is primarily the owner of hotel properties. Host Marriott Corporation operates as a self-managed and self-administered real estate investment trust, or REIT, with its operations conducted solely through us and our subsidiaries. Host Marriott holds approximately 94% of the partnership interests, or OP units, of Host LP.

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

Basis of Presentation and Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

On December 3, 2003, we settled all outstanding issues related to the terrorist attacks of September 11, 2001 with our insurer, Marriott International and the Port Authority of New York and New Jersey for the New York Marriott World Trade Center and Financial Center hotels and received net proceeds of approximately $372 million, of which $65 million was used to repay the outstanding mortgage on the New York Marriott World Trade Center hotel. Prior to reaching this settlement, we were obligated under our ground lease to rebuild the hotel on the site and as such recorded insurance proceeds in continuing operations. We recorded business interruption proceeds, net of expenses, of $14 million and $11 million for the New York Marriott World Trade Center hotel in 2003 and 2002, respectively, and a gain on the settlement of approximately $212 million in 2003. We consider the New York World Trade Center hotel to be abandoned and the gain on disposition and related

business interruption income, net of expenses, for that hotel have been reclassified to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets."

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

Earnings (Loss) Per Unit

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

	Year ended December 31,								
	2004			2003			2002		
	(in millions, except per unit amount)								
	Income	Units	Per Unit Amount	Income	Units	Per Unit Amount	Income	Units	Per Unit Amount
Net income (loss)	$ (1)	359.8	$ —	$ 14	307.2	$ .05	$ (19)	289.2	$ (.07)
Distributions on preferred OP units	(37)	—	(.11)	(35)	—	(.12)	(35)	—	(.12)
Issuance costs of redeemed Class A preferred units	(4)	—	(.01)	—	—	—	—	—	—
Basic and diluted loss available to common unitholders	$ (42)	359.8	$ (.12)	$ (21)	307.2	$ (.07)	$ (54)	289.2	$ (.19)

Property and Equipment

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

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

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

We will classify a hotel as held for sale in the period in which we have made the decision to dispose of the hotel, a binding agreement to purchase the property has been signed under which the buyer has committed a

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

Cash and Cash Equivalents

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

Restricted Cash

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

Minority Interest

Minority interest consists of third party limited partnership interests in consolidated investments of $83 million and $86 million at December 31, 2004 and 2003, respectively, that have finite lives and investments of $3 million at both December 31, 2004 and 2003 in partnerships that have infinite lives.

Income Taxes

Host LP is not a tax paying entity. However, under our partnership agreement we are required to reimburse Host Marriott for any tax payments Host Marriott is required to make. Accordingly, the tax information included herein represents disclosures regarding Host Marriott. As a result of our requirement to reimburse Host Marriott for these liabilities, such liabilities and related disclosures are included in our financial statements.

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

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

Deferred Charges

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

Foreign Currency Translation

As of December 31, 2004, our foreign operations consist of four properties located in Canada and one property located in Mexico. The operations of these properties are maintained in the local currency and then

translated to U.S. dollars using the average exchange rates for the period. The assets and liabilities of the properties are translated to U.S. dollars using the exchange rate in effect at the balance sheet date. The resulting translation adjustments are reflected in accumulated other comprehensive income.

Revenues

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

Other Comprehensive Income (Loss)

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

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

Derivative Instruments

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

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

Concentrations of Credit Risk

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

Accounting for Stock-Based Compensation

At December 31, 2004, Host Marriott maintained two stock-based employee compensation plans, which are described more fully in Note 8. Prior to 2002, Host Marriott accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Effective January 1, 2002, Host Marriott adopted the fair value recognition provisions of SFAS

No. 123, “Accounting for Stock-Based Compensation,” or SFAS 123, prospectively to all employee awards granted, modified or settled after January 1, 2002. Awards under Host Marriott’s employee stock option plan generally vest over four years. Therefore, the cost related to stock-based employee compensation included in the determination of net income or loss for 2004, 2003 and 2002 is less than that which would have been recognized if the fair value based method had been applied to these awards since the original effective date of SFAS 123. The adoption of SFAS 123 did not change the calculation of stock-based employee compensation costs for shares granted under Host Marriott’s deferred stock and restricted stock plans. The following table illustrates the effect on net income (loss) and earnings (loss) per unit if the fair value based method had been applied to all of our outstanding and unvested awards in each period.

	Year Ended December 31,		
	2004	**2003**	**2002**
	(in millions, except per unit amounts)		
Net income (loss), as reported	$ (1)	$ 14	$ (19)
Add: Total stock-based employee compensation expense included in reported net income (loss), net of related tax effects	24	16	5
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(25)	(16)	(6)
Pro forma net income (loss)	$ (2)	$ 14	$ (20)
Loss per unit			
Basic and diluted—as reported	$(.12)	$(.07)	$(.19)
Basic and diluted—pro forma	$(.12)	$(.07)	$(.19)

Application of New Accounting Standards

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

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

Reclassifications

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

2. Property and Equipment

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

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

3. Investments in Affiliates

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

	As of December 31, 2004			
	Ownership Interests	Our Investment	Debt	Assets
	(in millions)			
CBM Joint Venture LLC	50%	$ 33	$898	120 Courtyard hotels
Tiburon Golf Ventures, L.P.	49%	19	—	36-hole golf club
Other	1%	—	—	Two full-service hotels
Total		$ 52	$898	

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

CBM Joint Venture LLC (“CBM Joint Venture”) is a joint venture with Marriott International that collectively owns, through two limited partnerships, 120 limited service hotels.

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

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

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

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

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

	2004	2003
	(in millions)	
Property and equipment, net	$1,049	$1,021
Other assets	77	131
Total assets	$1,126	$1,152
Debt	$ 898	$ 901
Other liabilities	106	86
Equity	122	165
Total liabilities and equity	$1,126	$1,152

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

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

4. Debt

Debt consists of the following:

	December 31,	
	2004	2003
	(in millions)	
Series B senior notes, with a rate of 7 7/8% due August 2008	$ 304	$1,196
Series C senior notes, with a rate of 8.45% due December 2008	—	218
Series E senior notes, with a rate of 8 3/8% due February 2006	300	300
Series G senior notes, with a rate of 9 1/4% due October 2007	243	244
Series I senior notes, with a rate of 9 1/2% due January 2007	468	484
Series J senior notes, with a rate of 7 1/8% due November 2013	—	725
Series K senior notes, with a rate of 7 1/8% due November 2013	725	—
Series L senior notes, with a rate of 7% due August 2012	346	—
Exchangeable Senior Debentures with a rate of 3.25% due 2024	491	—
Senior notes, with an average rate of 9.7% maturing through 2012	13	13
Total senior notes	2,890	3,180
Mortgage debt (non-recourse) secured by $2.9 billion of real estate assets, with an average rate of 7.7% and 7.8% at December 31, 2004 and 2003, respectively, maturing through February 2023 (1)	2,043	2,205
Credit facility	—	—
Convertible debt obligation to Host Marriott Corporation with a rate of 6 3/4% due December 2026	492	492
Other	98	101
Total debt	$5,523	$5,978

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

Senior Notes

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

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

Issuances. On August 4, 2004, we issued $350 million of 7% Series L senior notes and received net proceeds of $345 million after discounts, underwriting fees and expenses. The Series L senior notes mature on August 15, 2012 and are equal in right of payment with all of our other senior indebtedness. Interest is payable

semiannually in arrears on February 15 and August 15 of each year beginning on February 15, 2005. On September 2, 2004, we used the net proceeds from the issuance of the Series L senior notes and available cash to redeem $336 million of our $7\frac{7}{8}$% Series B senior notes, which is discussed below.

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

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

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

Convertible Debt Obligation to Host Marriott Corporation. The obligation for the $492 million of $6\frac{3}{4}$% Convertible Subordinated Debentures, or the Debentures, as of December 31, 2003 and 2002 has been included in these financial statements as our debt because upon Host Marriott's conversion to a REIT, we assumed primary liability for repayment of the Debentures of Host Marriott underlying the Convertible Preferred Securities (defined below) of the Host Marriott Financial Trust, or the Issuer, a wholly-owned subsidiary trust of Host Marriott. The common securities of Host Marriott Financial Trust were not contributed to us and therefore Host Marriott Financial Trust is not consolidated by us. Upon conversion by a Convertible Preferred Securities

holder, Host Marriott will issue shares of its common stock which will be delivered to such holder. Upon the issuance of such shares by Host Marriott, we will issue to Host Marriott the number of OP units equal to the number of shares of common stock issued by Host Marriott in exchange for the Debentures.

As of December 31, 2004, Host Marriott Financial Trust, held 9.5 million shares of 6 3/4% convertible quarterly income preferred securities, or the Convertible Preferred Securities, with a liquidation preference of $50 per share (for a total liquidation amount of $475 million). The Convertible Preferred Securities represent an undivided beneficial interest in the assets of the Issuer. The payment of distributions out of moneys held by the Issuer and payments on liquidation of the Issuer or the redemption of the Convertible Preferred Securities are guaranteed by us to the extent the Issuer has funds available therefor. This guarantee, when taken together with our obligations under the indenture pursuant to which the Debentures were issued, the Debentures, our obligations under the Trust Agreement and its obligations under the indenture to pay costs, expenses, debts and liabilities of the Issuer (other than with respect to the Convertible Preferred Securities) provides a full and unconditional guarantee of amounts due on the Convertible Preferred Securities. Proceeds from the issuance of the Convertible Preferred Securities were invested in the Debentures due December 2, 2026 issued by us. The Issuer exists solely to issue the Convertible Preferred Securities and its own common securities, or the Common Securities, and invest the proceeds therefrom in the Debentures, which is its sole asset. Separate financial statements of the Issuer are not presented because of our guarantee described above; our management has concluded that such financial statements are not material to investors as the Issuer is wholly owned by Host Marriott and essentially has no independent operations.

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

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

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

Amended and Restated Credit Facility. On September 10, 2004, we entered into an amended and restated credit facility (the "Credit Facility") with Deutsche Bank Trust Company Americas, as Administrative Agent, Bank of America, N.A., as Syndication Agent, Citicorp North America Inc., Société Générale and Calyon New York Branch, as Co-Documentation Agents and certain other lenders. The Credit Facility amends our prior credit facility and provides aggregate revolving loan commitments in the amount of $575 million with an option to increase the amount of the facility by up to $100 million to the extent that any one or more lenders, whether or not currently party to the Credit Facility, commits to be a lender for such amount. The Credit Facility also includes sub-commitments for the issuance of letters of credit in an aggregate amount of $10 million and loans to our Canadian subsidiaries in Canadian Dollars in an aggregate amount of $150 million. The Credit Facility has

an initial scheduled maturity in September 2008. We have an option to extend the maturity for an additional year if certain conditions are met at the time of the initial scheduled maturity. Interest on borrowings under the Credit Facility will be calculated based on a spread over LIBOR ranging from 2.00% to 3.75%. The rate will vary based on our leverage ratio. We are required to pay a quarterly commitment fee that will vary based on the amount of unused capacity under the Credit Facility. Currently, the commitment fee is .55% on an annual basis.

Mortgage Debt

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

Eight of our hotel properties secure a $571 million mortgage loan that is the sole asset of a trust that issued commercial mortgage pass-through certificates, which we refer to as the CMBS Loan. These hotels securing the CMBS Loan are the New York Marriott Marquis, the San Francisco Airport Hyatt Regency, the Cambridge Hyatt Regency, the Reston Hyatt Regency, the Boston Hyatt Regency, The Drake Hotel New York, the Westin Buckhead Atlanta, and the Swissôtel Chicago, which we refer to as the CMBS Portfolio. The CMBS Loan contains a provision that requires the mortgage servicer to retain certain excess cash flow from the CMBS Portfolio after payment of debt service (approximately $64 million) if net cash flow after payment of taxes, insurance, ground rent and reserves for furniture, fixtures and equipment for the trailing twelve months declines below $96 million. This provision was triggered beginning in the third quarter of 2002. As of December 31, 2004 and 2003, approximately $37 million and $15 million, respectively, of cash was escrowed. During the third quarter of 2005, the CMBS Portfolio met the necessary minimum cash flow requirements for two consecutive quarters, and, as a result, the $71 million of cash that had been escrowed to that point was returned to us on October 31, 2005.

On July 12, 2002, we modified the terms of the mortgage debt secured by our four Canadian properties. Under the terms of this modification, we agreed to escrow the excess cash flow from these hotels on a retroactive basis effective December 29, 2001. In April 2003, approximately $7 million of the cash escrowed in accordance with the loan was applied to the outstanding balance of the indebtedness and approximately $2 million was released to us. In July 2003, we entered into an agreement with the lenders to further modify certain covenants so that we would not be required to make additional prepayments at that time. The terms of the modification required us to provide $10 million of cash collateral and pay an additional 25 basis points of interest on the loan. On December 29, 2003, we made a partial repayment of $32 million. In conjunction with the repayment, one of the hotels and the $10 million was released from the collateral in 2003. On December 15, 2004, we repaid an additional $34 million repayment and an additional hotel was released from the collateral. As of December 31, 2004, approximately $7 million was escrowed. During the first quarter of 2005, we met the necessary minimum cash flow requirements, and, as a result, the $7 million of cash that had been escrowed was returned to us in two installments on March 3, 2005 and April 8, 2005. There were no amounts escrowed at December 31, 2003. On October 17, 2005, we repaid the remaining $19 million balance of the mortgage debt.

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

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

On September 9, 2003, we refinanced the $95 million mortgage debt secured by the JW Marriott in Washington, D.C. with an $88 million floating-rate mortgage loan with an interest rate of one-month LIBOR plus 210 basis points (4.5% at December 31, 2004). Although the loan matures in 2005, we may extend the term of

the loan for three one-year periods upon satisfaction of certain conditions (we must purchase an interest rate cap to obtain the first one-year extension and the two remaining extensions are subject to certain debt service coverage levels). The loan may be prepaid beginning in May 2004, and no prepayment penalty will be assessed for any prepayments made after March 2005. We also purchased an interest rate cap at the inception of the loan, as discussed below.

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

Derivative Instruments

The mortgage loan on our Canadian properties is denominated in U.S. dollars and the functional currency of the Canadian subsidiaries is the Canadian dollar. At the time of the origination of the loan, each of the subsidiaries entered into 60 separate currency forward contracts to buy U.S. dollars at a fixed price. These forward contracts hedge the currency exposure of converting Canadian dollars to U.S. dollars on a monthly basis to cover debt service payments, including the final balloon payment. These contracts were designated as cash flow hedges of the debt service and balloon payment and were recorded at fair value on the balance sheet with offsetting changes recorded in accumulated other comprehensive income. During 2003, we prepaid approximately $39 million of the loan and terminated the foreign currency contracts equal to the prepayments for a payment of approximately $8 million. As a result, substantially all of the forward currency contracts were deemed ineffective for accounting purposes and we recorded a loss on the contracts of approximately $18 million in 2003, which is included in “Loss on foreign currency and derivative contracts” in the accompanying consolidated statement of operations. Subsequent to the prepayment date, we record the increase or decrease in the fair value of the outstanding forward currency contracts in net income (loss) each period. In December 2004, we made an additional $34 million prepayment on the loan, and, in early 2005, we terminated the foreign currency contracts equal to the prepayment for a payment of approximately $8 million. The fair value of the contracts on December 31, 2004 and 2003 was approximately $(20) million and $(12) million, respectively. We also purchased an interest rate cap for approximately $0.4 million which caps the floating interest rate at 10.75% based on a notional amount ($48.3 million). On October 17, 2005, we repaid the remaining $19 million balance of the mortgage debt and, on October 18, 2005, we terminated the remaining foreign currency contracts for a payment of approximately $10 million. The cap is a derivative that is marked to market with any resulting gains or losses recorded in loss on foreign currency and derivative contracts in the current period. The fair value of the interest rate cap was zero and $0.1 million, respectively, at December 31, 2004 and 2003.

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

On December 20, 2001, we entered into a 5-year interest rate swap agreement, which was effective on January 15, 2002 and matures in January 2007, effectively converting our Series I senior notes to floating rate debt. Under the swap, we receive fixed-rate payments of 9.5% and pay floating-rate payments based on one-month LIBOR plus 450 basis points (6.9% at December 31, 2004) on a $450 million notional amount, which is equal to the current amount of outstanding Series I senior notes. We have designated the interest rate swap as a fair value hedge for both financial reporting and tax purposes and the amounts paid or received under the swap agreement will be recognized over the life of the agreement as an adjustment to interest expense. Changes in the

fair value of the swap and the Series I senior notes are reflected in the balance sheet as offsetting changes and have no income statement effect. The fair value of this interest rate swap at December 31, 2004 and 2003 was $18 million and $34 million, respectively.

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

Aggregate Debt Maturities

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

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

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

Interest

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

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

5. Equity and Partner's Capital

As of December 31, 2004 and 2003, 371.3 million and 343.8 million common OP units, respectively, were outstanding, of which Host Marriott held 350.3 million and 320.3 million, respectively. In addition, 14.0 million and 14.1 million preferred OP units were outstanding as of December 31, 2004 and 2003, respectively.

Distributions. Host Marriott's policy on common dividends is generally to distribute at least 100% of its taxable income, unless otherwise contractually restricted. For Host Marriott's preferred dividends, it will generally pay the quarterly dividend, regardless of the amount of taxable income, unless similarly contractually restricted. Funds used by Host Marriott to pay dividends on its common and preferred stock are provided through distributions from Host LP. While we are not currently restricted in our ability to pay distributions, during the second half of 2002 and through the first quarter of 2004, we were limited in our ability to pay distributions, except to the extent necessary to maintain Host Marriott's REIT status.

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

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

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

OP Units. During June 2004, October 2003 and August 2003, Host Marriott sold 25.0 million, 23.5 million and 27.5 million shares of its common stock, respectively, at a price to the public of $12.12, $10.75 and $9.25 per share, respectively. The net proceeds from the sales were approximately $301 million, $250 million and $251 million, respectively, after payment of the underwriting discount and offering expenses. The proceeds were contributed to us in exchange for the issuance of an equivalent number of OP units to Host Marriott.

Preferred OP Units. We currently have three classes of preferred units outstanding to third parties: 4,000,000 units of 10% Class B preferred units; 5,980,000 units of 10% Class C preferred units and 4,034,400 units of 8 7/8% Class E preferred units. Holders of all classes of the preferred units are entitled to receive cumulative cash distributions at their respective rate per annum of the $25.00 per unit liquidation preference and are payable quarterly in arrears. After April 29, 2005, March 27, 2006, and June 2, 2009, we have the option to redeem the Class B preferred units, Class C preferred units and Class E preferred units, respectively, for $25.00 per unit, plus accrued and unpaid distributions to the date of redemption. The preferred unit classes rank senior to the common OP units, and on a parity with each other. The preferred unitholders generally have no voting rights. Accrued preferred distributions at December 31, 2004 and 2003 were approximately $8 million and $9 million, respectively. Additionally, we have 18,000 preferred OP units outstanding that are entitled to receive an $.84 per unit dividend per year and are convertible into OP units.

6. Income Taxes

Host LP is not a tax paying entity. However, under the operating partnership agreement we are required to reimburse Host Marriott for any tax payments Host Marriott is required to make. Accordingly, the tax information included herein represents disclosures regarding Host Marriott. As a result of our requirement to reimburse Host Marriott for these liabilities, such liabilities and related disclosures are included in our financial statements.

In December 1998, Host Marriott restructured itself in order to qualify for treatment as a REIT effective January 1, 1999, pursuant to the U.S. Internal Revenue Code of 1986, as amended. In general, a corporation that elects REIT status and meets certain tax law requirements regarding distribution of its taxable income to its stockholders as prescribed by applicable tax laws and complies with certain other requirements (relating primarily to the nature of its assets and the sources of its revenues) is not subject to Federal income taxation on its operating income to the extent it distributes at least 90% of its taxable income. In addition to paying Federal and state taxes on any retained income, we are subject to taxes on "built-in-gains" on sales of certain assets, if

any. Additionally, our consolidated taxable REIT subsidiaries are subject to Federal, state and foreign income tax. The consolidated income tax provision or benefit includes, primarily, the tax provision related to the operations of the taxable REIT subsidiaries, Federal and state taxes on any undistributed taxable income, and international taxes at Host LP, as well as each of their respective subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

7. Leases

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

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

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

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

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

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

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

Rent expense consists of:

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

8. Employee Stock Plans

In connection with Host Marriott's conversion to a REIT, we assumed the employee obligations of Host Marriott. Upon the issuance of Host Marriott common stock under either of the two stock-based compensation plans described below, we will issue Host Marriott an equal number of OP units. Accordingly, these liabilities and related disclosures are included in our consolidated financial statements.

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

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

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

In connection with the Host Marriott Services ("HM Services") spin-off in 1995, outstanding options held by our current and former employees were redenominated in both Host Marriott and HM Services stock and the exercise prices of the options were adjusted based on the relative trading prices of shares of the common stock of the two companies. Pursuant to the distribution agreement between Host Marriott and HM Services, we originally had the right to receive up to 1.4 million shares of HM Services' common stock or an equivalent cash value subsequent to exercise of the options held by certain former and current employees of Marriott International. On August 27, 1999, Autogrill Acquisition Co., a wholly owned subsidiary of Autogrill SpA of Italy, acquired HM Services. Since HM Services is no longer publicly traded, all future payments to us will be made in cash, as HM Services has indicated that the receivable will not be settled in Autogrill SpA stock. As of December 31, 2004 and 2003, the receivable balance was approximately $4 million and $6 million, respectively, which is included in other assets in the accompanying consolidated balance sheets.

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

The following table is a summary of the status of Host Marriott's stock option plans that have been approved by its stockholders for the three years ended December 31, 2004. Host Marriott does not have stock option plans that have not been approved by its stockholders.

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

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

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

Deferred Stock. Deferred stock incentive plan shares granted to officers and key employees after 1990 generally vest over 10 years in annual installments commencing one year after the date of grant. Certain employees may elect to defer payments until termination or retirement. We accrue compensation expense on a straight-line basis over the vesting period for the fair market value of the shares on the date of grant, less estimated forfeitures. No shares were granted under this plan in 2004. In 2003 and 2002, 45,000 and 23,000 shares, respectively, were granted under this plan. The compensation cost that has been charged against income for deferred stock was not material for all periods presented. The weighted average fair value per share granted during 2003 and 2002 was $8.00 and $9.95, respectively. The implementation of SFAS No. 123 had no impact on the calculation of compensation expense for the deferred stock incentive plan.

Restricted Stock. From time to time, Host Marriott awards restricted stock shares under the Comprehensive Plan to officers and key executives to be distributed over the next three years in annual installments based on continued employment and the attainment of certain performance criteria. Host Marriott recognizes compensation

expense over the restriction period equal to the fair market value of the shares issued, which is adjusted for fluctuation in the fair market value of its common stock. The number of shares issued is adjusted for forfeitures, and where appropriate, the level of attainment of performance criteria. In 2004, 2003 and 2002, 11,000, 3,203,000 and 906,000 shares, respectively, of restricted stock plan shares were granted to certain key employees under these terms and conditions. No shares were forfeited in 2004 and approximately 1,006,000 and 34,000 shares, respectively, were forfeited in 2003 and 2002. Host Marriott recorded compensation expense of approximately $23 million, $15 million and $5 million, respectively, in 2004, 2003 and 2002 related to these awards. The weighted average grant date fair value per share granted during each year was $12.50 in 2004, $8.82 in 2003 and $10.49 in 2002. Under these awards, 2.3 million shares were outstanding at December 31, 2004.

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

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

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

9. Profit Sharing and Postemployment Benefit Plans

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

10. Discontinued Operations

Assets Held For Sale. During December 2004, we entered into definitive, binding agreements to sell four hotels, which were subsequently sold in January 2005. During December 2003, we entered into a definitive,

binding agreement to sell five hotels, which were all sold in the first quarter of 2004. We recorded impairment charges of approximately $.7 million and $1.6 million related to these hotels as of December 31, 2004 and 2003, respectively. We reclassified the assets and liabilities relating to these hotels as held for sale in our consolidated balance sheets as of December 31, 2004 and 2003, respectively, as detailed in the following table (in millions):.

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

Dispositions. We disposed of five hotels in 2005, including the Charlotte Executive Park Marriott, which was sold on October 7, 2005, disposed of nine hotels in 2004, disposed of eight hotels and abandoned one hotel (New York Marriott World Trade Center hotel—see Note 1 for more detail) in 2003 and disposed of one hotel in 2002 that require their operations and the related gains (losses) to be reclassified to discontinued operations in the statements of operations for all years presented. The following table summarizes the revenues, income before taxes, and the gain on dispositions, net of tax, of the hotels, which have been reclassified to discontinued operations in the consolidated statements of operations for the periods presented (in millions):

	2004	2003	2002
Revenues (1)	$144	$452	$346
Income before taxes (1)	13	191	47
Gain on disposals, net of tax	52	65	12

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

11. Acquisitions

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

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

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

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

12. Fair Value of Financial Instruments

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

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Notes receivable	$ 7	$ 7	$ 54	$ 54
Financial liabilities				
Senior notes (excluding fair value of swaps)	2,380	2,517	3,143	3,318
Exchangeable Senior Debentures	491	578	—	—
Mortgage debt and other, net of capital leases (1)	2,130	2,197	2,294	2,225
Convertible debt obligation to Host Marriott Corporation	492	563	492	501

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

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

13. Marriott International Distribution and Relationship with Marriott International

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

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

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

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

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

14. Hotel Management Agreements

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

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

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

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

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

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

15. Geographic and Business Segment Information

We consider each one of our full-service hotels to be an operating segment, none of which meets the threshold for a reportable segment. We also allocate resources and assess operating performance based on individual hotels. All of our non-full-service hotel activities (primarily our limited-service leased hotels and office buildings) are immaterial, and thus, we report one business segment: hotel ownership. Our foreign operations consist of four properties located in Canada and one property located in Mexico. There were no intercompany sales between us and the foreign properties. The following table presents revenues and long-lived assets for each of the geographical areas in which we operate (in millions):

	2004		2003		2002	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$ 3,518	$ 7,124	$ 3,162	$ 6,907	$ 3,214	$ 6,857
Canada	87	111	70	107	71	96
Mexico	24	39	46	71	48	78
Total	$ 3,629	$ 7,274	$ 3,278	$ 7,085	$ 3,333	$ 7,031

16. Guarantees

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

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

17. Mandatorily Redeemable Non-controlling Interests of All Entities

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

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

18. Supplemental Guarantor and Non-Guarantor Information

All of our subsidiaries guarantee our senior notes, except those owning 30 of the Company's full-service hotels and HMH HPT RIBM LLC and HMH HPT CBM LLC, the lessees of the Residence Inn and Courtyard properties, respectively. The separate financial statements of each guaranteeing subsidiary (each, a "Guarantor Subsidiary") are not presented because we have concluded that such financial statements are not material to investors. The guarantee of each Guarantor Subsidiary is full and unconditional and joint and several and each Guarantor Subsidiary is our wholly owned subsidiary.

The following condensed combined consolidating financial information sets forth the financial position as of December 31, 2004 and 2003 and results of operations and cash flows for the three years ended December 31, 2004 of the parent, Guarantor Subsidiaries and the Non-Guarantor Subsidiaries:

Supplemental Condensed Combined Consolidating Balance Sheets
(in millions)

December 31, 2004

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property and equipment, net	$1,289	$ 3,238	$ 2,747	$ —	$ 7,274
Assets held for sale	—	77	36	—	113
Notes and other receivables	621	34	99	(747)	7
Due from manager	—	—	75	—	75
Investments in affiliates	3,183	1,910	57	(5,097)	53
Rent receivable	(5)	16	99	(110)	—
Other assets	311	53	185	(171)	378
Restricted cash	3	9	142	—	154
Cash and cash equivalents	295	7	45	—	347
Total assets	$5,697	$ 5,344	$ 3,485	$ (6,125)	$ 8,401
Debt	$2,691	$ 1,437	$ 1,998	$ (603)	$ 5,523
Other liabilities	507	(211)	424	(425)	295
Total liabilities	3,198	1,226	2,422	(1,028)	5,818
Minority interests	2	—	84	—	86
Limited partner interest of third parties at redemption value	363	—	—	—	363
Partners' capital	2,134	4,118	979	(5,097)	2,134
Total liabilities and partners' capital	$5,697	$ 5,344	$ 3,485	$ (6,125)	$ 8,401

December 31, 2003

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property and equipment, net	$ 937	$ 2,909	$ 3,239	$ —	$ 7,085
Assets held for sale	38	35	—	—	73
Notes and other receivables	678	35	97	(756)	54
Due from manager	(5)	—	67	—	62
Investments in affiliates	2,745	1,905	80	(4,656)	74
Rent receivable	(4)	10	29	(35)	—
Other assets	238	30	213	(121)	360
Restricted cash	5	2	109	—	116
Cash and cash equivalents	620	9	135	—	764
Total assets	$5,252	$ 4,935	$ 3,969	$ (5,568)	$ 8,588
Debt	$2,875	$ 1,520	$ 2,253	$ (670)	$ 5,978
Other liabilities	291	136	253	(404)	276
Total liabilities	3,166	1,656	2,506	(1,074)	6,254
Minority interests	3	—	86	—	89
Limited partner interest of third parties at redemption value	290	—	—	—	290
Partners' capital	1,793	3,279	1,377	(4,494)	1,955
Total liabilities and partners' capital	$5,252	$ 4,935	$ 3,969	$ (5,568)	$ 8,588

Supplemental Condensed Combined Consolidating Statements of Operations
(in millions)

Year Ended December 31, 2004

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 89	$ 444	$ 3,341	$ (245)	$ 3,629
Depreciation and amortization	(53)	(151)	(149)	—	(353)
Hotel operating expenses	—	—	(2,511)	—	(2,511)
Property-level expenses	(40)	(95)	(157)	—	(292)
Rental expense	—	—	(412)	412	—
Minority interest	—	—	(4)	—	(4)
Corporate and other expenses	(8)	(25)	(34)	—	(67)
Interest income	34	16	5	(44)	11
Interest expense	(215)	(131)	(182)	44	(484)
Net gains on property transactions	—	—	17	—	17
Equity in earnings (losses) of affiliates	65	38	(19)	(100)	(16)
Loss on foreign currency and derivative contracts	8	(5)	(9)	—	(6)
Income (loss) from continuing operations before taxes	(120)	91	(114)	67	(76)
Benefit (provision) for income taxes	(1)	—	11	—	10
INCOME (LOSS) FROM CONTINUING OPERATIONS	(121)	91	(103)	67	(66)
Income from discontinued operations	55	4	6	—	65
NET INCOME (LOSS)	$ (66)	$ 95	$ (97)	$ 67	$ (1)

Year Ended December 31, 2003

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ (8)	$ 345	$ 3,160	$ (219)	$ 3,278
Depreciation and amortization	(48)	(139)	(159)	—	(346)
Hotel operating expenses	—	—	(2,281)	—	(2,281)
Property-level expenses	(46)	(92)	(154)	—	(292)
Rental expense	—	—	(381)	381	—
Minority interest	(2)	—	(2)	—	(4)
Corporate and other expenses	(6)	(21)	(33)	—	(60)
Interest income	26	17	6	(38)	11
Interest expense	(226)	(139)	(194)	38	(521)
Net gains on property transactions	—	1	4	—	5
Equity in earnings (losses) of affiliates	(134)	(7)	(24)	143	(22)
Loss on foreign currency and derivative contracts	—	(19)	—	—	(19)
Income (loss) from continuing operations before taxes	(444)	(54)	(58)	305	(251)
Benefit (provision) for income taxes	(3)	—	16	—	13
INCOME (LOSS) FROM CONTINUING OPERATIONS	(447)	(54)	(42)	305	(238)
Income (loss) from discontinued operations	306	(61)	7	—	252
NET INCOME (LOSS)	$(141)	$ (115)	$ (35)	$ 305	$ 14

Year Ended December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 147	$ 354	$ 3,238	$ (406)	$ 3,333
Depreciation and amortization	(51)	(130)	(158)	—	(339)
Hotel operating expenses	—	3	(2,252)	—	(2,249)
Property-level expenses	(41)	(86)	(157)	—	(284)
Rental expenses	—	—	(406)	406	—
Minority interest	(3)	—	(6)	—	(9)
Corporate and other expenses	—	(16)	(29)	—	(45)
Interest income	48	9	9	(47)	19
Interest expense	(221)	(139)	(179)	47	(492)
Net gains on property transactions	1	—	4	—	5
Equity in earnings (losses) of affiliates	80	78	(14)	(153)	(9)
Loss on foreign currency and derivative contracts	(2)	—	—	—	(2)
Income (loss) from continuing operations before taxes	(42)	73	50	(153)	(72)
Benefit (provision) for income taxes	9	(1)	(10)	—	(2)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(33)	72	40	(153)	(74)
Income from discontinued operations	14	14	27	—	55
NET INCOME (LOSS)	$ (19)	$ 86	$ 67	$ (153)	$ (19)

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

Year Ended December 31, 2004

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from operations	$ 13	$ 180	$ 167	$ 360
INVESTING ACTIVITIES				
Proceeds from sales of assets, net	184	35	27	246
Acquisitions	(29)	(474)	—	(503)
Distributions from equity investments	1	—	5	6
Capital expenditures	(42)	(88)	(120)	(250)
Note receivable collections	47	—	—	47
Other investments	(47)	—	—	(47)
Cash from (used in) investing activities	114	(527)	(88)	(501)
FINANCING ACTIVITIES				
Issuances of debt	837	—	—	837
Financing costs	(16)	—	—	(16)
Debt prepayments	(1,147)	(45)	(38)	(1,230)
Scheduled principal repayments	(19)	(8)	(34)	(61)
Issuances of OP units	301	—	—	301
Issuances of preferred OP units	98	—	—	98
Redemption of preferred OP units	(104)	—	—	(104)
Distributions on common OP units	(20)	—	—	(20)
Distributions on preferred OP units	(37)	—	—	(37)
Distributions to minority interests	—	—	(6)	(6)
Transfer to/from Parent	(333)	389	(56)	—
Other	(16)	7	(29)	(38)
Cash (used in) from financing activities	(456)	343	(163)	(276)
DECREASE IN CASH AND CASH EQUIVALENTS	(329)	(4)	(84)	(417)
CASH AND CASH EQUIVALENTS, beginning of year	620	9	135	764
CASH AND CASH EQUIVALENTS, end of year	$ 291	$ 5	$ 51	$ 347

Year Ended December 31, 2003

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from (used in) operations	$ 219	$ (9)	$ 160	$ 370
INVESTING ACTIVITIES				
Proceeds from sales of assets, net	76	108	—	184
Disposition of World Trade Center hotel	—	185	—	185
Acquisitions	—	(321)	(3)	(324)
Distributions from equity investments	—	1	2	3
Capital expenditures	(38)	(89)	(74)	(201)
Cash from (used in) investing activities	38	(116)	(75)	(153)
FINANCING ACTIVITIES				
Issuance of debt	725	—	88	813
Financing costs	(16)	—	—	(16)
Debt prepayments	(790)	(122)	(95)	(1,007)
Schedule principal repayments	(1)	(9)	(42)	(52)
Issuance of OP Units	501	—	—	501
Distributions on preferred limited partner units	(35)	—	—	(35)
Distributions to minority interests	—	—	(6)	(6)
Transfer to/from Parent	(168)	263	(95)	—
Other	(12)	—	—	(12)
Cash (used in) from financing activities	204	132	(150)	186
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	461	7	(65)	403
CASH AND CASH EQUIVALENTS, beginning of year	159	2	200	361
CASH AND CASH EQUIVALENTS, end of year	$ 620	$ 9	$ 135	$ 764

Year Ended December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash from (used in) operations	$ (80)	$ 149	$ 305	$ 374
INVESTING ACTIVITIES				
Acquisitions	(105)	(11)	(1)	(117)
Distributions from equity investments	—	1	5	6
Capital expenditures	(27)	(68)	(85)	(180)
Return of escrow funds from Marriott International	12	26	37	75
Cash used in investing activities	(120)	(52)	(44)	(216)
FINANCING ACTIVITIES				
Financing costs	(8)	—	—	(8)
Debt prepayments	(13)	—	—	(13)
Scheduled principal repayments	(15)	(6)	(42)	(63)
Issuance of OP Units	1	—	—	1
Distributions on preferred OP units	(35)	—	—	(35)
Distributions to minority interests	—	—	(18)	(18)
Purchase of interest rate cap	(3)	—	—	(3)
Transfer to/from Parent	218	(92)	(126)	—
Other	(10)	—	—	(10)
Cash from (used in) financing activities	135	(98)	(186)	(149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(65)	(1)	75	9
CASH AND CASH EQUIVALENTS, beginning of year	224	3	125	352
CASH AND CASH EQUIVALENTS, end of year	$ 159	$ 2	$ 200	$ 361

19. Subsequent Events

We sold four hotels during the first quarter of 2005 (the Torrance Marriott, the Albuquerque Marriott, the Hartford Marriott at Farmington and the Tampa Westshore Marriott) for net proceeds of approximately $100 million. All of these hotels were classified as held for sale as of December 31, 2004. In accordance with SFAS 144, we reclassified the results of operations to reflect the results of these hotels as discontinued operations. On October 7, 2005, we sold the 297-room Charlotte Marriott Executive Park for total proceeds of approximately $21 million. Effective with the filing of our 2005 third quarter results, the results of operations of this hotel were reclassified as discontinued operations.

On September 30, 2005, we acquired the 834-room Hyatt Regency, Washington, D.C. on Capitol Hill for a purchase price of approximately $274 million.

On March 10, 2005, we issued $650 million of 63/8% Series N senior notes due in 2015 and received net proceeds of approximately $640 million, of which $291 million were used to retire $280 million of the 83/8% Series E senior notes during the first quarter. On April 11, 2005, we used $174 million of the proceeds to redeem $169 million of the 77/8% Series B senior notes and to pay the related call premiums. On April 22, 2005, we discharged the remaining $20 million in Series E senior notes for $21 million. On May 2, 2005, we used $150 million of the remaining proceeds to prepay the 9%, $140 million mortgage debt secured by two of our Ritz-Carlton hotels and to pay the prepayment penalties on the loan. The losses related to the prepayment of the mortgage debt, the redemption of the Series B senior notes and the discharge of the remaining Series E senior notes, totaling approximately $18 million, was recognized in the second quarter.

On May 20, 2005, we redeemed, at par, all four million shares of our 10% Class B Cumulative Redeemable Preferred stock (“Class B preferred stock”) for approximately $101 million, including accrued dividends. The fair value of our Class B preferred stock (which is equal to the redemption price) exceeds the carrying value of the preferred stock by approximately $4 million. The $4 million represents the original issuance costs. Accordingly, this amount will be reflected in the determination of net income available to common stockholders for the purpose of calculating our basic and diluted earnings (loss) per share.

On March 29, 2005, we sold 85% of our interest in the CBM Joint Venture LLC, on CBM Joint Venture, for approximately $92 million. In conjunction with the sale of our interest, CBM Joint Venture was converted into a limited partnership. As a result of a restructuring of the joint venture and additional capital investment by the new general partner, we now own a 3.6% limited partner interest in the newly formed partnership, which we have the right to cause the partnership to redeem, under certain conditions, between December 2007 and December 2009. Starting December 9, 2009, the partnership will have the right to redeem our remaining interest. We recorded a gain on the sale of approximately $42 million, net of taxes, in the second quarter

On November 14, 2005 we signed a definitive merger agreement to acquire 38 luxury and upper-upscale hotels from Starwood Hotels and Resorts (“Starwood”) for approximately $4.04 billion. The portfolio consists of 25 domestic and 13 international properties and a total of 18,964 rooms managed under the Westin, Sheraton, W Hotels, The Luxury Collection and St. Regis brands. As part of this transaction, we expect to assume approximately $704 million of debt and Host Marriott Corporation, our sole general partner, will issue approximately $2.3 billion of equity (133,529,412 common shares at the exchange price of $17.00 per share) to Starwood stockholders and we will issue a corresponding number of operating partnership units to Host Marriott Corporation. The remainder of the purchase price will be paid in cash. The transaction is expected to close in the first quarter of 2006, and is subject to the approval of the Host Marriott Corporation’s stockholders, as well as other closing conditions. The boards of directors of Host Marriott and Starwood have approved the proposed transaction.

20. Quarterly Financial Data (unaudited)

	2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per unit amounts)				
Revenues	$ 775	$ 896	$ 781	$1,177	$3,629
Income (loss) from continuing operations	(38)	(5)	(51)	28	(66)
Income from discontinued operations	4	23	1	37	65
Net income (loss)	(34)	18	(50)	65	(1)
Net income (loss) available to common unitholders	(43)	8	(63)	56	(42)
Basic earnings (loss) per common unit:					
Continuing operations	(.13)	(.05)	(.17)	.05	(.30)
Discontinued operations	.01	.07	—	.10	.18
Net income (loss)	(.12)	.02	(.17)	.15	(.12)
Diluted earnings (loss) per common unit:					
Continuing operations	(.13)	(.05)	(.17)	.05	(.30)
Discontinued operations	.01	.07	—	.10	.18
Net income (loss)	(.12)	.02	(.17)	.15	(.12)

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	(in millions, except per unit amounts)				
Revenues	$ 740	$ 798	$ 701	$1,039	$3,278
Income (loss) from continuing operations	(43)	(25)	(77)	(93)	(238)
Income from discontinued operations	5	10	3	234	252
Cumulative effect of a change in accounting principle	—	—	(24)	24	—
Net income (loss)	(38)	(15)	(98)	165	14
Net income (loss) available to common unitholders	(47)	(24)	(107)	157	(21)
Basic earnings (loss) per common unit:					
Continuing operations	(.18)	(.12)	(.28)	(.31)	(.89)
Discontinued operations	.02	.03	.01	.70	.82
Cumulative effect of a change in accounting principle	—	—	(.08)	.07	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)
Diluted earnings (loss) per common unit:					
Continuing operations	(.18)	(.12)	(.28)	(.31)	(.89)
Discontinued operations	.02	.03	.01	.70	.82
Cumulative effect of a change in accounting principle	—	—	(.08)	.07	—
Net income (loss)	(.16)	(.09)	(.35)	.46	(.07)

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

Exhibit 99.4

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
September 9, 2005
(unaudited, in millions, except per unit amounts)

	September 9, 2005
ASSETS	
Property and equipment, net	$ 7,204
Assets held for sale	13
Due from managers	66
Investments in affiliates	25
Deferred financing costs, net	69
Furniture, fixtures and equipment replacement fund	154
Other	130
Restricted cash	165
Cash and cash equivalents	402
Total assets	$ 8,228
LIABILITIES AND PARTNERS' CAPITAL	
Debt	
Senior notes, including $492 million, net of discount, of Exchangeable Senior Debentures	$ 3,054
Mortgage debt	1,858
Convertible debt obligation to Host Marriott Corporation	492
Other	97
Total debt	5,501
Accounts payable and accrued expenses	129
Liabilities associated with assets held for sale	—
Other	153
Total liabilities	5,783
Minority interest	28
Limited partnership interests of third parties at redemption value (representing 20.0 million units)	353
Partners' Capital	
General partner	1
Cumulative redeemable preferred limited partner	241
Limited partner	1,805
Accumulated other comprehensive income	17
Total partners' capital	2,064
Total liabilities and partners' capital	$ 8,228

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Year-to-Date Ended September 9, 2005 and September 10, 2004
(unaudited, in millions, except per unit amounts)

	Year-to-date ended	
	September 9, 2005	September 10, 2004
REVENUES		
Rooms	$ 1,612	$ 1,463
Food and beverage	785	751
Other	174	164
Total hotel sales	2,571	2,378
Rental income	76	74
Total revenues	2,647	2,452
EXPENSES		
Rooms	392	366
Food and beverage	592	572
Hotel departmental expenses	710	666
Management fees	112	98
Other property-level expenses	205	206
Depreciation and amortization	254	242
Corporate and other expenses	45	43
Total operating costs and expenses	2,310	2,193
OPERATING PROFIT	337	259
Interest income	17	8
Interest expense	(318)	(356)
Net gains on property transactions	77	10
Gain (loss) on foreign currency and derivative contracts	1	(2)
Minority interest income (expense)	(6)	(3)
Equity in earnings (losses) of affiliates	(1)	(12)
INCOME (LOSS) BEFORE INCOME TAXES	107	(96)
Benefit from (provision for) income taxes	(23)	2
INCOME (LOSS) FROM CONTINUING OPERATIONS	84	(94)
Income from discontinued operations.	13	28
NET INCOME (LOSS)	97	(66)
Less: Distributions on preferred units	(21)	(28)
Issuance costs of redeemed preferred units	(4)	(4)
NET INCOME (LOSS) AVAILABLE TO COMMON UNITHOLDERS	$ 72	$ (98)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON UNIT:		
Continuing operations	$ .16	$ (.36)
Discontinued operations	.03	.08
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON UNIT	$ .19	$ (.28)

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Year-to-Date Ended September 9, 2005 and September 10, 2004
(unaudited, in millions)

	Year-to-date ended	
	September 9, 2005	September 10, 2004
OPERATING ACTIVITIES		
Net income (loss)	$ 97	$ (66)
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	(12)	(20)
Depreciation	1	9
Depreciation and amortization	254	242
Amortization of deferred financing costs	10	11
Income taxes	18	(10)
Net gains on property transactions	(73)	(3)
(Gain) loss on foreign currency and derivative contracts	(1)	2
Equity in losses of affiliates	1	12
Minority interest expense	6	3
Change in due from managers	9	(2)
Changes in other assets	(13)	19
Changes in other liabilities	12	9
Cash provided by operations	309	206
INVESTING ACTIVITIES		
Acquisitions	(5)	(474)
Deposits for hotel acquisitions	(12)	(3)
Proceeds from sale of assets, net of expenses	100	155
Proceeds from sale of interest in CBM Joint Venture LLC, net of expenses	90	—
Distributions from equity investments	2	2
Capital expenditures:		
Renewals and replacements	(147)	(147)
Repositionings and other investments	(46)	(14)
Change in furniture, fixtures and equipment replacement fund	(3)	(6)
Other	(13)	—
Cash used in investing activities	(34)	(487)
FINANCING ACTIVITIES		
Financing costs	(12)	(7)
Issuance of debt	650	829
Issuance of common units	—	301
Issuance of Class E preferred units	—	98
Redemption of preferred units	(100)	(104)
Debt prepayments	(609)	(1,196)
Scheduled principal repayments	(43)	(43)
Distributions on common units	(68)	—
Distributions on preferred units	(24)	(29)
Distributions to minority interests	(3)	(5)
Change in restricted cash	(11)	(10)
Cash used in financing activities	(220)	(166)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55	(447)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	347	764
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 402	$ 317

HOST MARRIOTT, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
Year-to-Date Ended September 9, 2005 and September 10, 2004
(unaudited, in millions)

Supplemental disclosure of noncash investing and financing activities:

Through year-to-date September 9, 2005 and September 10, 2004, minority partners converted operating partnership units, or OP units, valued at approximately $16.1 million and $17.6 million, respectively, in exchange for approximately 1.0 million shares and 1.4 million shares, respectively, of common stock of Host Marriott Corporation.

On January 3, 2005, we transferred $47 million of preferred units of Vornado Realty Trust, which we had purchased on December 30, 2004, in redemption of a minority partner’s interest in a consolidated partnership.

On January 6, 2005, we sold the Hartford Marriott at Farmington for a purchase price of approximately $25 million, including the assumption of approximately $20 million of mortgage debt by the buyer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization

Host Marriott, L.P., a Delaware limited partnership, or Host LP, operating through an umbrella partnership structure with Host Marriott Corporation, or HMC, as the sole general partner, is primarily the owner of hotel properties. HMC operates as a self-managed and self-administered real estate investment trust, or REIT, with its operations conducted solely through us and our subsidiaries. HMC holds approximately 95% of the partnership interests, or OP units, of Host LP.

2. Summary of Significant Accounting Policies

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, or GAAP, in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of September 9, 2005 and the results of our operations and our cash flows for the year-to-date ended September 9, 2005 and September 10, 2004. Interim results are not necessarily indicative of full-year performance because of the impact of seasonal and short-term variations.

Certain reclassifications have been made to the prior period financial statements to conform to the current presentation.

Revenues

Our results of operations primarily reflect revenues of our hotels, which are recognized when the services are rendered.

Reporting Periods

The results we report in our consolidated statement of operations are based on results reported to us by our hotel managers. These hotel managers use different reporting periods. Marriott International, Inc., the manager of the majority of our properties, uses a fiscal year ending on the Friday closest to December 31 and reports twelve weeks of operations for the first three quarters of the year and sixteen or seventeen weeks for the fourth quarter of the year for its Marriott-managed hotels. In contrast, other managers of our hotels, such as Hyatt, report results on a monthly basis. For results reported by hotel managers using a monthly reporting period (approximately one-fourth of our full-service hotels), the month of operation that ends after our fiscal quarter-end is included in our results of operations in the following fiscal quarter. Accordingly, our results of operations include results from hotel managers reporting results on a monthly basis as follows: first quarter (January, February), second quarter (March to May), third quarter (June to August), and fourth quarter (September to December). We elected to adopt the reporting period used by Marriott International modified so that our fiscal year always ends on December 31. Accordingly, our first three quarters of operations end on the same day as Marriott International but our fourth quarter ends on December 31.

Restricted Cash

Restricted cash includes reserves for debt service, real estate taxes, insurance, furniture and fixtures as well as cash collateral and excess cash flow deposits which are the result of mortgage debt agreement restrictions and provisions.

Furniture, Fixtures and Equipment Replacement Fund

We maintain a furniture, fixtures and equipment replacement fund for renewal and replacement capital expenditures at certain hotels, which is generally funded with approximately 5% of property revenues.

Accounting for Stock-based Compensation

HMC maintains two stock-based employee compensation plans. Prior to 2002, HMC accounted for those plans in accordance with APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Effective January 1, 2002, HMC adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” and applied it prospectively to all employee awards granted, modified or settled after January 1, 2002. The following table illustrates the effect on net income (loss) and earnings (loss) per common unit if the fair value based method had been applied to all of the outstanding and unvested awards in each period.

	Year-to-date ended	
	September 9, 2005	September 10, 2004
	(in millions, except per unit amounts)	
Net income (loss), as reported	$ 97	$ (66)
Add: Total stock-based employee compensation expense included in reported net income (loss), net of related tax effects	14	14
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(14)	(14)
Pro forma net income (loss)	97	(66)
Distributions on preferred OP units	(21)	(28)
Issuance costs of redeemed preferred OP units (1)	(4)	(4)
Pro forma net income (loss) available to common OP unitholders	$ 72	$ (98)
Earnings (loss) per unit		
Basic and diluted—as reported	$ .19	$ (.28)
Basic and diluted—pro forma	$ .19	$ (.28)

(1) Represents the original issuance costs associated with the Class B preferred OP units in 2005 and the Class A preferred OP units in 2004. For further detail see note 5.

Application of New Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment,” or FAS 123R, which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in FAS 123. The provisions of FAS 123R are effective as of the beginning of the first annual reporting period that begins after June 15, 2005. HMC adopted the fair value provisions of FAS 123 in 2002 and, therefore, have recognized the costs associated with all share-based payment awards granted after January 1, 2002. The adoption of FAS 123R in 2006 will not have a material effect on our financial position or results of operations.

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

3. Earnings (Loss) per Common Unit

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

	Year-to-date ended					
	September 9, 2005			September 10, 2004		
	Income/ (loss)	Units	Per Unit Amount	Income/ (loss)	Units	Per Unit Amount
	(in millions, except per unit amounts)					
Net income (loss)	$ 97	373.0	$ .26	$ (66)	354.4	$ (.19)
Distributions on preferred OP units	(21)	—	(.06)	(28)	—	(.08)
Issuance costs of redeemed preferred OP units (1)	(4)	—	(.01)	(4)	—	(.01)
Basic earnings (loss) available to common unitholders	72	373.0	.19	(98)	354.4	(.28)
Assuming distribution of units granted under the comprehensive stock plan less shares assumed purchased at average market price	—	2.4	—	—	—	—
Diluted earnings (loss) available to common unitholders	$ 72	375.4	$ .19	$ (98)	354.4	$ (.28)

(1) Represents the original issuance costs associated with the Class B preferred OP units in 2005 and the Class A preferred OP units in 2004. For further detail see Note 5.

4. Debt

During the third quarter, we exchanged all of our \$650 million 6 3/8% Series N senior notes for our 6 3/8% Series O senior notes. The terms of the Series O senior notes are substantially identical in all material aspects, except that the Series O senior notes are registered under the Securities Act of 1933 and are therefore, freely transferable by the holders.

The following table summarizes significant debt transactions since the beginning of 2005 (in millions):

Transaction Date		Description of Transaction	Transaction Amount
May	2005	Prepayment of the 9% mortgage debt on two Ritz-Carlton hotels	$ (140)
April	2005	Discharge of the remaining 8 3/8% Series E senior notes	(20)
April	2005	Redemption of 7 7/8% Series B senior notes	(169)
March	2005	Repurchase of 8 3/8% Series E senior notes	(280)
March	2005	Proceeds from the issuance of 6 3/8% Series N senior notes (a)	650
January	2005	8.35% mortgage on the Hartford Marriott at Farmington assumed by buyer	(20)

(a) Approximately $11 million of financing costs related to the debt issuance were deferred and will be amortized over the life of the debt.

As a result of the repayment transactions described above, we incurred $30 million of interest expense during 2005 for the call premiums and the acceleration of deferred financing costs and original issue discounts.

5. Preferred OP Unit Redemption

On May 20, 2005, we redeemed, at par, all four million units of our 10% Class B Cumulative Preferred OP units, or Class B preferred OP units, for approximately $101 million, including accrued distributions. The fair value of our Class B preferred OP units (which is equal to the redemption price) exceeded the carrying value of the preferred OP units by approximately $4 million. The $4 million represents the original issuance costs. Accordingly, this amount has been reflected in the determination of net income available to common unitholders for the purpose of calculating our basic and diluted earnings per unit.

6. Distributions

On September 16, 2005, HMC's Board of Directors declared a cash dividend of $0.11 per share for its common stock. The dividend was paid on October 17, 2005 to stockholders of record as of September 30, 2005. Accordingly, we made a $0.11 distribution per common OP unit.

Additionally, on September 16, 2005, HMC's Board of Directors declared a quarterly cash dividend of $0.625 per share for its Class C preferred stock and a cash dividend of $0.5546875 per share for its Class E preferred stock. The dividends were paid on October 17, 2005 to preferred stockholders of record as of September 30, 2005. Accordingly, we made a similar distribution on our Class C and E preferred OP units.

7. Geographic Information

We consider each one of our full-service hotels to be an operating segment, none of which meets the threshold for a reportable segment. We also allocate resources and assess operating performance based on individual hotels. All of our non-full-service hotel activities (primarily our limited-service leased hotels and office buildings) are immaterial. Accordingly, we report one business segment, hotel ownership. As of September 9, 2005, our foreign operations consist of four properties located in Canada and one property located in Mexico. There were no intercompany sales between our domestic properties and our foreign properties. The following table presents revenues for each of the geographical areas in which we operate:

	Year-to-date ended	
	September 9, 2005	September 10, 2004
	(in millions)	
United States	$ 2,572	$ 2,378
Canada	60	57
Mexico	15	17
Total revenue	$ 2,647	$ 2,452

8. Comprehensive Income (Loss)

Our other comprehensive income (loss) consists of unrealized gains and losses on foreign currency translation adjustments and the receipt of cash from HMS Host Corporation, or HM Services, subsequent to the exercise of the options held by certain former and current employees of Marriott International, pursuant to our distribution agreement with HM Services.

	Year-to-date ended	
	September 9, 2005	September 10, 2004
	(in millions)	
Net income (loss)	$ 97	$ (66)
Other comprehensive income	4	—
Comprehensive income (loss)	$ 101	$ (66)

9. Discontinued Operations

Assets Held for Sale. During the third quarter, we entered into a definitive, binding agreement to sell Charlotte Marriott Executive Park, which was subsequently sold on October 7, 2005. We reclassified the assets and liabilities relating to this hotel as of September 9, 2005, respectively, as detailed in the following table:

	2005
	(in millions)
Property and equipment, net	$ 13
Other assets	—
Total assets	$ 13
Other liabilities	—
Total liabilities	$ —

Dispositions. We sold four hotels during the first quarter of 2005 for net proceeds of approximately $100 million. All of these properties were classified as held for sale as of December 31, 2004. The following table summarizes the revenues, income before taxes, and the gain on dispositions, net of tax, of the hotels which have been reclassified to discontinued operations in the consolidated statements of operations for the periods presented, including the Charlotte Executive Park Marriott and the operations of nine additional hotels through the date of their disposition in 2004.

	Year-to-date ended	
	September 9, 2005	September 10, 2004
	(in millions)	
Revenues	$ 9	$ 104
Income before taxes	1	9
Gain on dispositions, net of tax	12	20

10. Supplemental Guarantor and Non-Guarantor Subsidiary Information

All of our subsidiaries guarantee our senior notes except those owning 22 of the full-service hotels and HMH HPT RIBM LLC and HMH HPT CBM LLC, the lessees of the Residence Inn and Courtyard properties,

respectively. The separate financial statements of each guaranteeing subsidiary (each, a "Guarantor Subsidiary") are not presented because we have concluded that such financial statements are not material to investors. The guarantee of each Guarantor Subsidiary is full and unconditional and joint and several and each Guarantor Subsidiary is wholly owned.

The following condensed consolidating information sets forth the financial position as of September 9, 2005, results of operations and cash flows for the year-to-date ended September 9, 2005 and September 10, 2004 of the parent, Guarantor Subsidiaries and the Non-Guarantor Subsidiaries:

Supplemental Condensed Consolidating Balance Sheets
(in millions)

September 9, 2005

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Property and equipment, net	$ 898	$ 3,287	$ 3,019	$ —	$ 7,204
Assets held for sale	13	—	—	—	13
Due from managers	(1)	6	61	—	66
Investments in affiliates	3,228	1,094	30	(4,327)	25
Rent receivable	—	13	145	(158)	—
Deferred financing costs, net	52	—	17	—	69
Furniture, fixtures and equipment replacement fund	97	28	29	—	154
Other	678	43	178	(769)	130
Restricted cash	1	1	163	—	165
Cash and cash equivalents	204	14	184	—	402
Total assets	$5,170	$ 4,486	$ 3,826	$ (5,254)	$ 8,228
Debt	$2,845	$ 1,265	$ 1,978	$ (587)	$ 5,501
Other liabilities	115	346	368	(547)	282
Total liabilities	2,960	1,611	2,346	(1,134)	5,783
Minority interests	—	—	28	—	28
Limited partner interest of third parties at redemption value	353	—	—	—	353
Partners' capital	1,857	2,875	1,452	(4,120)	2,064
Total liabilities and partners' capital	$5,170	$ 4,486	$ 3,826	$ (5,254)	$ 8,228

Supplemental Condensed Consolidating Statements of Operations
(in millions)

Year-to-date ended September 9, 2005

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 213	$ 248	$ 2,418	$ (232)	$ 2,647
Hotel operating expenses	—	—	(1,806)	—	(1,806)
Property-level expenses	(26)	(67)	(112)	—	(205)
Depreciation and amortization	(35)	(113)	(106)	—	(254)
Corporate and other expenses	(5)	(20)	(20)	—	(45)
Rental expense	—	—	(401)	401	—
Gains on property transactions	2	1	74	—	77
Interest income	21	1	7	(12)	17
Interest expense	(126)	(100)	(104)	12	(318)
Gain (loss) on foreign currency and derivative contracts	1	—	—	—	1
Minority interest expense	—	—	(6)	—	(6)
Equity in earnings (losses) of affiliates	(117)	28	(4)	92	(1)
Income (loss) before income taxes	(72)	(22)	(60)	261	107
Provision for income taxes	(2)	—	(21)	—	(23)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(74)	(22)	(81)	261	84
Income (loss) from discontinued operations	2	21	(10)	—	13
NET INCOME (LOSS)	$ (72)	$ (1)	$ (91)	$ 261	$ 97

Year-to-date ended September 10, 2004

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ 294	$ 215	$ 2,304	$ (361)	$ 2,452
Hotel operating expenses	—	—	(1,702)	—	(1,702)
Property-level expenses	(27)	(69)	(110)	—	(206)
Depreciation and amortization	(34)	(106)	(102)	—	(242)
Corporate and other expenses	(2)	(20)	(21)	—	(43)
Rental expense	—	—	(361)	361	—
Minority interest expense	—	—	(3)	—	(3)
Interest income	26	7	3	(28)	8
Interest expense	(171)	(96)	(117)	28	(356)
Gains on property transactions	—	—	10	—	10
Gain (loss) on foreign currency and derivative contracts	(2)	—	—	—	(2)
Equity in earnings (losses) of affiliates	(171)	22	(15)	152	(12)
Income (loss) before income taxes	(87)	(47)	(114)	152	(96)
Provision for income taxes	(3)	—	5	—	2
INCOME (LOSS) FROM CONTINUING OPERATIONS	(90)	(47)	(109)	152	(94)
Income from discontinued operations	20	4	4	—	28
NET INCOME (LOSS)	$ (70)	$ (43)	$ (105)	$ 152	$ (66)

Supplemental Condensed Consolidating Statements of Cash Flows
(in millions)

Year-to-date September 9, 2005

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash provided by (used in) operations	$ 264	$ 66	$ (21)	$ 309
INVESTING ACTIVITIES				
Acquisitions	(5)	—	—	(5)
Deposits for hotel acquisitions	—	(12)	—	(12)
Proceeds from sale of assets, net	—	15	85	100
Proceeds from sale of interest in CBM Joint Venture LLC, net	90	—	—	90
Distributions from equity investments	1	1	—	2
Capital expenditures	(44)	(68)	(81)	(193)
Change in furniture, fixtures and equipment replacement fund	(64)	3	58	(3)
Other	(13)	—	—	(13)
Cash provided by (used in) investing activities	(35)	(61)	62	(34)
FINANCING ACTIVITIES				
Issuance of debt	650	—	—	650
Financing costs	(12)	—	—	(12)
Redemption of Class B preferred OP units	(100)	—	—	(100)
Scheduled principal repayments	(1)	(9)	(33)	(43)
Debt prepayments	(469)	(140)	—	(609)
Distributions on common OP units	(68)	—	—	(68)
Distributions on preferred OP units	(24)	—	—	(24)
Distributions to minority interests	—	—	(3)	(3)
Change in restricted cash	2	7	(20)	(11)
Transfers to/from Parent	(297)	141	156	—
Cash provided by (used in) financing activities	(319)	(1)	100	(220)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (90)	$ 4	$ 141	$ 55

Year-to-date September 10, 2004

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
OPERATING ACTIVITIES				
Cash provided by (used in) operations	$ 183	$ 43	$ (20)	$ 206
INVESTING ACTIVITIES				
Acquisitions	(474)	—	—	(474)
Deposit for hotel acquisitions	—	(3)	—	(3)
Proceeds from sale of assets, net	93	35	27	155
Distributions from equity investments	—	2	—	2
Capital expenditures	(24)	(76)	(61)	(161)
Change in furniture, fixtures and equipment replacement Fund	(4)	1	(3)	(6)
Cash used in investing activities	(409)	(41)	(37)	(487)
FINANCING ACTIVITIES				
Issuance of debt	829	—	—	829
Financing costs	(7)	—	—	(7)
Redemption or repurchase of OP units for cash	(104)	—	—	(104)
Issuance of common OP units	301	—	—	301
Issuance of Class E preferred OP units	98	—	—	98
Scheduled principal repayments	—	(9)	(34)	(43)
Debt prepayments	(1,113)	(45)	(38)	(1,196)
Distributions on preferred OP units	(29)	—	—	(29)
Distributions to minority interests	—	—	(5)	(5)
Change in restricted cash	31	(7)	(34)	(10)
Transfers to/from Parent	(135)	57	78	—
Cash used in financing activities	(129)	(4)	(33)	(166)
DECREASE IN CASH AND CASH EQUIVALENTS	$ (355)	$ (2)	$ (90)	$ (447)

11. Subsequent Events

On September 30, 2005, we acquired the 834-room Hyatt Regency, Washington, D.C. on Capitol Hill for a purchase price of approximately $274 million.

On October 7, 2005, we sold the 297-room Charlotte Marriott Executive Park, which is classified as held-for-sale at September 9, 2005, for total proceeds of approximately $21 million, resulting in a gain of approximately $7 million.

On October 17, 2005, we repaid the remaining $19 million balance of the mortgage debt secured by two of our Canadian properties and, on October 18, 2005, we terminated the remaining foreign currency contracts for a payment of approximately $10 million.

On November 14, 2005, we signed a definitive merger agreement to acquire 38 luxury and upper-upscale hotels from Starwood Hotels and Resorts (“Starwood”) for approximately $4.04 billion. The portfolio consists of 25 domestic and 13 international properties and a total of 18,964 rooms managed under the Westin, Sheraton, W Hotels, The Luxury Collection and St. Regis brands. As part of this transaction, we expect to assume approximately $704 million of debt and to issue approximately $2.3 billion of equity (133,529,412 common shares at the exchange price of $17.00 per share) to Starwood stockholders. The remainder of the purchase price will be paid in cash. The transaction is expected to close in the first quarter of 2006, and is subject to the approval of our stockholders, as well as other closing conditions. The boards of directors of both companies have approved the proposed transaction.

HOST MARRIOTT, L.P. AND SUBSIDIARIES

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

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	**Debt**	**Land**	**Buildings & Improvements**	**Subsequent Costs Capitalized**	**Land**	**Buildings & Improvements**	**Total**	**Accumulated Depreciation**	**Date of Completion of Construction**	**Date Acquired**	**Depreciation Life**
Full-service hotels:											
Albany, New York	$ —	$ 6	$ 30	$ —	$ 6	$ 30	$ 36	$ (6)	—	1998	40
The Ritz-Carlton, Amelia Island, Florida	—	25	116	8	25	124	149	(19)	—	1998	40
Four Seasons, Atlanta, Georgia	36	5	48	13	6	60	66	(10)	—	1998	40
Grand Hyatt, Atlanta, Georgia	—	8	88	12	8	100	108	(16)	—	1998	40
Atlanta Marquis, Georgia	145	12	184	38	16	218	234	(34)	—	1998	40
Atlanta Midtown Suites, Georgia	—	—	26	2	—	28	28	(6)	—	1996	40
Westin Buckhead, Georgia	32	5	84	17	6	100	106	(16)	—	1998	40
Miami Biscayne Bay, Florida	—	—	31	(2)	—	29	29	(7)	—	1998	40
Boston Marriott Copley Place, Massachusetts	89	—	202	13	—	215	215	(16)	—	2002	40
Boston/Newton, Massachusetts	—	3	31	9	3	40	43	(24)	—	1997	40
Hyatt, Boston, Massachusetts	33	15	69	17	17	84	101	(13)	—	1998	40
Hyatt Regency, Burlingame, California	65	16	119	32	20	147	167	(23)	—	1998	40
Calgary, Canada	—	5	18	7	5	25	30	(7)	—	1996	40
Hyatt Regency, Cambridge, Massachusetts	46	18	84	9	19	92	111	(15)	—	1998	40
Chicago/Downtown Courtyard, Illinois	—	7	27	3	7	30	37	(9)	—	1992	40
Chicago Embassy Suites, Illinois	—	—	85	—	—	85	85	(1)	—	2004	
Chicago O'Hare, Illinois	—	4	26	30	4	56	60	(23)	—	1997	40
Chicago O'Hare Suites, Illinois	—	—	36	1	—	37	37	(6)	—	1998	40
Chicago/Deerfield Suites, Illinois	—	4	19	1	4	20	24	(7)	—	1990	40
Swissôtel, Chicago, Illinois	55	29	132	11	30	142	172	(23)	—	1998	40
Coronado Island Resort, California	—	—	53	4	—	57	57	(11)	—	1997	40
Costa Mesa Suites, California	—	3	19	1	3	20	23	(5)	—	1996	40
Dallas Quorum, Texas	—	—	27	5	—	32	32	(10)	—	1994	40
Dayton, Ohio	—	2	30	2	2	32	34	(5)	—	1998	40
The Ritz-Carlton, Dearborn, Michigan	—	8	51	3	8	54	62	(9)	—	1998	40
Denver Tech Center, Colorado	—	6	26	13	6	39	45	(10)	—	1994	40
Desert Springs Resort and Spa, California	91	14	143	65	13	209	222	(37)	—	1997	40
Fairview Park, Virginia	—	9	39	1	8	41	49	(7)	—	1998	40
Fort Lauderdale Marina, Florida	—	6	30	10	6	40	46	(13)	—	1994	40
Gaithersburg/Washingtonian Center, Maryland	—	7	22	1	7	23	30	(7)	—	1993	40
Hanover, New Jersey	—	4	30	9	5	38	43	(10)	—	1997	40
Harbor Beach Resort, Florida	91	—	62	48	—	110	110	(26)	—	1997	40
Houston Airport, Texas	—	—	10	29	—	39	39	(26)	—	1984	40
JW Marriott Hotel at Lenox, Georgia	—	—	21	11	—	32	32	(12)	—	1990	40
JW Marriott Houston, Texas	—	4	26	10	8	32	40	(10)	—	1994	40
JWDC, Washington, D.C.	88	26	99	4	26	103	129	(13)	—	2003	40
Fairmont Kea Lani, Hawaii	—	55	294	1	55	295	350	(3)	—	2003	40
Key Bridge, Virginia	—	—	38	10	—	48	48	(25)	—	1997	40
Manhattan Beach, California	—	8	29	5	—	42	42	(10)	—	1997	40

HOST MARRIOTT, L.P. AND SUBSIDIARIES

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

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
Marina Beach, California	—	—	13	17	—	30	30	(6)	—	1995	40
Maui Hyatt, Hawaii	—	92	212	2	92	214	306	(6)	—	2003	40
Memphis, Tennessee	—	—	16	28	—	44	44	(8)	—	1998	40
Mexico/Polanco, Mexico	8	11	35	2	10	38	48	(12)	—	1996	40
Marriott McDowell Mountains, Arizona	34	10	48	—	—	58	58	—	—	2004	40
Miami Airport, Florida	—	—	7	45	—	52	52	(32)	—	1972	40
Minneapolis City Center, Minnesota	—	—	27	15	—	42	42	(25)	—	1986	40
Minneapolis Southwest, Minnesota	—	5	23	1	5	24	29	(5)	—	1998	40
New Orleans, Louisiana	89	16	96	57	16	153	169	(34)	—	1996	40
New York Financial Center, New York	—	19	79	13	19	92	111	(21)	—	1997	40
New York Marquis, New York	233	—	552	93	—	645	645	(262)	—	1986	40
Newark Airport, New Jersey	—	—	30	24	—	54	54	(30)	—	1984	40
Newport Beach, California	—	11	13	51	11	64	75	(36)	—	1975	40
Orlando Marriott World Center, Florida	222	18	156	189	29	334	363	(62)	—	1997	40
Pentagon City Residence Inn, Virginia	—	6	29	3	6	32	38	(7)	—	1996	40
Philadelphia Airport, Pennsylvania	—	—	42	3	1	44	45	(10)	—	1995	40
Philadelphia Convention Center, Pennsylvania	101	3	143	54	11	189	200	(44)	—	1995	40
Four Seasons, Philadelphia, Pennsylvania	—	26	60	9	27	68	95	(12)	—	1998	40
Portland, Oregon	—	6	40	8	6	48	54	(13)	—	1994	40
Hyatt Regency, Reston, Virginia	43	11	78	12	12	89	101	(14)	—	1998	40
The Ritz-Carlton, Phoenix, Arizona	—	10	63	1	10	64	74	(12)	—	1998	40
The Ritz-Carlton, Tysons Corner, Virginia	—	—	89	7	—	96	96	(17)	—	1998	40
The Ritz-Carlton, San Francisco, California	—	31	123	6	31	129	160	(21)	—	1998	40
San Antonio Rivercenter, Texas	73	—	86	44	—	130	130	(27)	—	1996	40
San Antonio Riverwalk, Texas	—	—	45	4	—	49	49	(12)	—	1995	40
San Diego Hotel and Marina, California	185	—	203	98	—	301	301	(64)	—	1996	40
San Diego Mission Valley, California	—	4	22	3	4	25	29	(5)	—	1998	40
San Francisco Airport, California	—	11	48	16	12	63	75	(18)	—	1994	40
San Francisco Fisherman’s Wharf, California	—	6	20	8	6	28	34	(10)	—	1994	40
San Francisco Moscone Center, California	—	—	278	34	—	312	312	(101)	—	1989	40
San Ramon, California	20	—	22	10	—	32	32	(7)	—	1996	40
Santa Clara, California	37	—	39	32	—	71	71	(39)	—	1989	40
Seattle SeaTac Airport, Washington	—	4	49	(6)	4	43	47	(11)	—	1998	40
Tampa Waterside, Florida	—	—	—	98	11	87	98	(11)	2000	—	40
Swissôtel, The Drake, New York	64	28	130	41	34	165	199	(27)	—	1998	40
The Ritz-Carlton, Atlanta, Georgia	—	13	42	8	13	50	63	(13)	—	1996	40
The Ritz-Carlton, Buckhead, Georgia	57	14	80	23	16	101	117	(23)	—	1996	40
The Ritz-Carlton, Marina del Rey, California	—	—	52	8	—	60	60	(14)	—	1997	40
The Ritz-Carlton, Naples, Florida	86	19	127	59	21	184	205	(43)	—	1996	40
The Ritz-Carlton, Naples Golf Lodge, Florida	—	6	—	65	7	64	71	(5)	2002	—	40

HOST MARRIOTT, L.P. AND SUBSIDIARIES

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

		Initial Costs			Gross Amount at December 31, 2004						
Description(1)	Debt	Land	Buildings & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Completion of Construction	Date Acquired	Depreciation Life
Toronto Airport, Canada	7	5	24	3	5	27	32	(7)	—	1996	40
Toronto Eaton Center, Canada	13	—	27	3	—	30	30	(7)	—	1995	40
Toronto Delta Meadowvale, Canada	—	4	20	9	4	29	33	(9)	—	1996	40
Dulles Airport, Washington	—	—	3	26	—	29	29	(23)	—	1970	40
Washington Dulles Suites, Washington	—	3	24	1	3	25	28	(6)	—	1996	40
Washington Metro Center, Washington D.C.	—	20	24	6	20	30	50	(8)	—	1994	40
Westfields, Virginia	—	7	32	4	7	36	43	(10)	—	1994	40
Sub total full-service hotels:	2,043	733	5,875	1,690	776	7,522	8,298	(1,719)			
Sub total—other full-service properties less than 5% of total:	—	34	293	74	33	368	401	(138)		various	40
Total full-service properties:	2,043	767	6,168	1,764	809	7,890	8,699	(1,857)			
Other properties, each less than 5% of total	—	17	26	6	17	32	49	(13)		various	Various
Total properties	2,043	784	6,194	1,770	826	7,922	8,748	(1,870)			
Held for sale properties	20	16	93	19	18	110	128	(39)		various	—
TOTAL	$2,063	$ 800	$ 6,287	$ 1,789	$ 844	$ 8,032	$8,876	$ (1,909)			

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

HOST MARRIOTT, L.P. AND SUBSIDIARIES

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

Notes:

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

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

HOST MARRIOTT, L.P. AND SUBSIDIARIES

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

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

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

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

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