

HOST HOTELS & RESORTS L.P.
Form 10-Q
July 23, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 15, 2012

OR

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

Commission File Number: 001-14625 (Host Hotels & Resorts, Inc.)

0-25087 (Host Hotels & Resorts, L.P.)

HOST HOTELS & RESORTS, INC.

HOST HOTELS & RESORTS, L.P.

(Exact name of registrant as specified in its charter)

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Maryland (Host Hotels & Resorts, Inc.)

53-0085950

Delaware (Host Hotels & Resorts, L.P.)
(State or Other Jurisdiction of

52-2095412
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

6903 Rockledge Drive, Suite 1500

Bethesda, Maryland
(Address of Principal Executive Offices)

20817
(Zip Code)

(240) 744-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Host Hotels & Resorts, Inc.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Host Hotels & Resorts, Inc.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Host Hotels & Resorts, Inc.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
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Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
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Host Hotels & Resorts, L.P.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
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Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Host Hotels & Resorts, Inc.

Yes ☐ No ☒

Host Hotels & Resorts, L.P.

Yes ☐ No ☒

As of July 19, 2012 there were 722,584,975 shares of Host Hotels & Resorts, Inc.'s common stock, \$.01 par value per share, outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q of Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. Unless stated otherwise or the context requires otherwise, references to Host Inc. mean Host Hotels & Resorts, Inc., a Maryland corporation, and references to Host L.P. mean Host Hotels & Resorts, L.P., a Delaware limited partnership, and its consolidated subsidiaries, in cases where it is important to distinguish between Host Inc. and Host L.P. We use the terms we or our or the company to refer to Host Inc. and Host L.P. together, unless the context indicates otherwise.

Host Inc. operates as a self-managed and self-administered real estate investment trust (REIT). Host Inc. owns properties and conducts operations through Host L.P., of which Host Inc. is the sole general partner and in which it holds approximately 98.6% of the partnership interests (OP units). The remaining OP units are owned by various unaffiliated limited partners. As the sole general partner of Host L.P., Host Inc. has the exclusive and complete responsibility for Host L.P.'s day-to-day management and control. Management operates Host Inc. and Host L.P. as one enterprise. The management of Host Inc. consists of the same persons who direct the management of Host L.P. As general partner with control of Host L.P., Host Inc. consolidates Host L.P. for financial reporting purposes, and Host Inc. does not have significant assets other than its investment in Host L.P. Therefore, the assets and liabilities of Host Inc. and Host L.P. are substantially the same on their respective condensed consolidated financial statements and the disclosures of Host Inc. and Host L.P. also are substantially similar. For these reasons, we believe that combining into a single report the quarterly reports on Form 10-Q of Host Inc. and Host L.P. results in benefits to management and investors.

The substantive difference between Host Inc.'s and Host L.P.'s filings is the fact that Host Inc. is a REIT with public stock, while Host L.P. is a partnership with no publicly traded equity. In the condensed consolidated financial statements, this difference primarily is reflected in the equity (or partners' capital for Host L.P.) section of the consolidated balance sheets and in the consolidated statements of equity (or partners' capital). Apart from the different equity treatment, the condensed consolidated financial statements of Host Inc. and Host L.P. nearly are identical.

This combined Form 10-Q for Host Inc. and Host L.P. includes, for each entity, separate interim financial statements (but combined footnotes), separate reports on disclosure controls and procedures and internal control over financial reporting and separate CEO/CFO certifications. In addition, with respect to any other financial and non-financial disclosure items required by Form 10-Q, any material differences between Host Inc. and Host L.P. are discussed separately herein. For a more detailed discussion of the substantive differences between Host Inc. and Host L.P. and why we believe the combined filing results in benefits to investors, see the discussion in the combined Annual Report on Form 10-K for the year ended December 31, 2011 under the heading Explanatory Note .

Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

June 15, 2012 and December 31, 2011

(in millions, except share and per share amounts)

	June 15, 2012 (unaudited)	December 31, 2011
ASSETS		
Property and equipment, net	\$ 11,347	\$ 11,383
Asset held for sale	5	
Due from managers	77	37
Advances to and investments in affiliates	211	197
Deferred financing costs, net	54	55
Furniture, fixtures and equipment replacement fund	169	166
Other	380	368
Restricted cash	28	36
Cash and cash equivalents	465	826
Total assets	\$ 12,736	\$ 13,068
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes, including \$525 million and \$902 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 4,012	\$ 4,543
Credit facility	138	117
Mortgage debt	990	1,006
Other	86	87
Total debt	5,226	5,753
Accounts payable and accrued expenses	95	175
Other	278	269
Total liabilities	5,599	6,197
Non-controlling interests - Host Hotels & Resorts, L.P.	160	158
Host Hotels & Resorts Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized; 720.9 million and 705.1 million shares issued and outstanding, respectively	7	7
Additional paid-in capital	7,983	7,750
Accumulated other comprehensive loss	(7)	(1)
Deficit	(1,042)	(1,079)
Total equity of Host Hotels & Resorts, Inc. stockholders	6,941	6,677
Non-controlling interests - other consolidated partnerships	36	36
Total equity	6,977	6,713
Total liabilities, non-controlling interests and equity	\$ 12,736	\$ 13,068

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	June	June	June	June
	15,	17,	15,	17,
	2012	2011	2012	2011
REVENUES				
Rooms	\$ 823	\$ 773	\$ 1,395	\$ 1,288
Food and beverage	400	376	693	643
Other	80	74	139	128
Owned hotel revenues	1,303	1,223	2,227	2,059
Other revenues	65	61	124	117
Total revenues	1,368	1,284	2,351	2,176
EXPENSES				
Rooms	214	203	379	351
Food and beverage	279	265	494	464
Other departmental and support expenses	316	306	566	541
Management fees	56	52	90	84
Other property-level expenses	143	136	267	253
Depreciation and amortization	159	148	311	287
Corporate and other expenses	21	22	43	47
Total operating costs and expenses	1,188	1,132	2,150	2,027
OPERATING PROFIT	180	152	201	149
Interest income	3	5	7	9
Interest expense	(94)	(89)	(180)	(171)
Net gains on property transactions and other	1	2	2	3
Gain (loss) on foreign currency transactions and derivatives		1	(1)	2
Equity in earnings of affiliates	5	4	3	2
INCOME (LOSS) BEFORE INCOME TAXES	95	75	32	(6)
Benefit (provision) for income taxes	(12)	(8)	1	13
INCOME FROM CONTINUING OPERATIONS	83	67	33	7
Income (loss) from discontinued operations, net of tax		(3)	50	(3)
NET INCOME	83	64	83	4
Less: Net income attributable to non-controlling interests	(1)	(2)	(3)	(2)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 82	\$ 62	\$ 80	\$ 2
Basic earnings (loss) per common share:				
Continuing operations	\$.11	\$.10	\$.04	\$.01
Discontinued operations		(.01)	.07	(.01)

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Basic earnings per common share	\$.11	\$.09	\$.11	\$
Diluted earnings (loss) per common share:				
Continuing operations	\$.11	\$.10	\$.04	\$.01
Discontinued operations		(.01)	.07	(.01)
Diluted earnings per common share	\$.11	\$.09	\$.11	\$

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**Quarter and Year-to-date ended June 15, 2012 and June 17, 2011****(unaudited, in millions)**

	Quarter ended		Year-to-date ended	
	June	June	June	June
	15,	17,	15,	17,
	2012	2011	2012	2011
NET INCOME	\$ 83	\$ 64	\$ 83	\$ 4
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	(29)	13	(8)	22
Change in fair value of derivative instruments	4	(2)	2	(7)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(25)	11	(6)	15
COMPREHENSIVE INCOME	58	75	77	19
Less: Comprehensive income attributable to non-controlling interests	(1)	(2)	(3)	(2)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC	\$ 57	\$ 73	\$ 74	\$ 17

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited, in millions)

	Year-to-date ended June	
	15, 2012	17, 2011
OPERATING ACTIVITIES		
Net income	\$ 83	\$ 4
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	(48)	
Depreciation	1	6
Depreciation and amortization	311	287
Amortization of deferred financing costs	6	5
Amortization of debt premiums/discounts, net	5	9
Deferred income taxes	(4)	(15)
Net gain on property transactions and other	(2)	(3)
(Gain) loss on foreign currency transactions and derivatives	1	(2)
Non-cash loss on extinguishment of debt	4	1
Equity in earnings of affiliates, net	(3)	(2)
Change in due from managers	(42)	(27)
Changes in other assets	12	12
Changes in other liabilities	(22)	(19)
Cash provided by operating activities	302	256
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	108	
Acquisitions	(18)	(1,035)
Advances to and investment in affiliates	(20)	(18)
Capital expenditures:		
Renewals and replacements	(179)	(119)
Redevelopment and other investments	(162)	(121)
Change in furniture, fixtures and equipment (FF&E) replacement fund	(2)	1
Property insurance proceeds	4	2
Cash used in investing activities	(269)	(1,290)
FINANCING ACTIVITIES		
Financing costs	(7)	(8)
Issuances of debt	450	576
Draws on credit facility	22	153
Repayment on credit facility		(50)
Repurchase/redemption of senior notes, including exchangeable debentures	(893)	(250)
Mortgage debt prepayments and scheduled maturities	(113)	(132)
Scheduled principal repayments	(2)	(2)
Common stock issuance	222	288
Dividends on common stock	(78)	(21)
Contributions from non-controlling interests	1	
Distributions to non-controlling interests	(4)	(4)

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Change in restricted cash for financing activities	8	5
Cash provided by (used in) financing activities	(394)	555
DECREASE IN CASH AND CASH EQUIVALENTS	(361)	(479)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	826	1,113
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 465	\$ 634

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended	
	June	June
	15,	17,
	2012	2011
Interest paid	\$ 160	\$ 144
Income taxes paid	8	4

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended June 15, 2012 and June 17, 2011, Host Inc. issued approximately 0.5 million shares and 0.2 million shares, respectively, upon the conversion of OP units of Host L.P. held by non-controlling partners valued at approximately \$8 million and \$4 million, respectively.

On March 17, 2011, we acquired the 1,625-room Manchester Grand Hyatt San Diego, and certain related rights. In connection with the acquisition, Host L.P. issued approximately 0.3 million common OP units valued at \$18.741 per unit, or approximately \$6 million.

On April 29, 2011, we acquired a 75% controlling interest in the 364-room Hilton Melbourne South Wharf. In connection with the acquisition, we assumed AUD 80 million (\$86 million) of mortgage debt and recorded the mortgage debt at its fair value at the acquisition date, which reflected a premium of \$0.5 million.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

June 15, 2012 and December 31, 2011

(in millions)

	June 15, 2012 (unaudited)	December 31, 2011
ASSETS		
Property and equipment, net	\$ 11,347	\$ 11,383
Assets held for sale	5	
Due from managers	77	37
Advances to and investments in affiliates	211	197
Deferred financing costs, net	54	55
Furniture, fixtures and equipment replacement fund	169	166
Other	380	368
Restricted cash	28	36
Cash and cash equivalents	465	826
Total assets	\$ 12,736	\$ 13,068
LIABILITIES, LIMITED PARTNERSHIP INTEREST OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes, including \$525 million and \$902 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 4,012	\$ 4,543
Credit facility	138	117
Mortgage debt	990	1,006
Other	86	87
Total debt	5,226	5,753
Accounts payable and accrued expenses	95	175
Other	278	269
Total liabilities	5,599	6,197
Limited partnership interests of third parties	160	158
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner Additional paid-in capital	6,947	6,677
Accumulated other comprehensive loss	(7)	(1)
Total Host Hotels & Resorts, L.P. capital	6,941	6,677
Non-controlling interests consolidated partnerships	36	36
Total capital	6,977	6,713
Total liabilities, limited partnership interest of third parties and capital	\$ 12,736	\$ 13,068

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
REVENUES				
Rooms	\$ 823	\$ 773	\$ 1,395	\$ 1,288
Food and beverage	400	376	693	643
Other	80	74	139	128
Owned hotel revenues	1,303	1,223	2,227	2,059
Other revenues	65	61	124	117
Total revenues	1,368	1,284	2,351	2,176
EXPENSES				
Rooms	214	203	379	351
Food and beverage	279	265	494	464
Other departmental and support expenses	316	306	566	541
Management fees	56	52	90	84
Other property-level expenses	143	136	267	253
Depreciation and amortization	159	148	311	287
Corporate and other expenses	21	22	43	47
Total operating costs and expenses	1,188	1,132	2,150	2,027
OPERATING PROFIT	180	152	201	149
Interest income	3	5	7	9
Interest expense	(94)	(89)	(180)	(171)
Net gains on property transactions and other	1	2	2	3
Gain (loss) on foreign currency transactions and derivatives		1	(1)	2
Equity in earnings of affiliates	5	4	3	2
INCOME (LOSS) BEFORE INCOME TAXES	95	75	32	(6)
Benefit (provision) for income taxes	(12)	(8)	1	13
INCOME FROM CONTINUING OPERATIONS	83	67	33	7
Income (loss) from discontinued operations, net of tax		(3)	50	(3)
NET INCOME	83	64	83	4
Less: Net income attributable to non-controlling interests		(1)	(2)	(2)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$ 83	\$ 63	\$ 81	\$ 2
Basic earnings (loss) per common unit:				
Continuing operations	\$.12	\$.10	\$.04	\$.01
Discontinued operations		(.01)	.07	(.01)
Basic earnings per common unit	\$.12	\$.09	\$.11	\$

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Diluted earnings (loss) per common unit:

Continuing operations	\$.12	\$.10	\$.04	\$.01
Discontinued operations		(.01)	.07	(.01)
Diluted earnings per common unit	\$.12	\$.09	\$.11	\$

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****Quarter and Year-to-date ended June 15, 2012 and June 17, 2011****(unaudited, in millions)**

	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
NET INCOME	\$ 83	\$ 64	\$ 83	\$ 4
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	(29)	13	(8)	22
Change in fair value of derivative instruments	4	(2)	2	(7)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(25)	11	(6)	15
COMPREHENSIVE INCOME	58	75	77	19
Less: Comprehensive income attributable to non-controlling interests		(1)	(2)	(2)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, LP	\$ 58	\$ 74	\$ 75	\$ 17

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited, in millions)

	Year-to-date ended	
	June 15, 2012	June 17, 2011
OPERATING ACTIVITIES		
Net income	\$ 83	\$ 4
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	(48)	
Depreciation	1	6
Depreciation and amortization	311	287
Amortization of deferred financing costs	6	5
Amortization of debt premiums/discounts, net	5	9
Deferred income taxes	(4)	(15)
Net gain on property transactions and other	(2)	(3)
(Gain) loss on foreign currency transactions and derivatives	1	(2)
Non-cash loss on extinguishment of debt	4	1
Equity in earnings of affiliates, net	(3)	(2)
Change in due from managers	(42)	(27)
Changes in other assets	12	12
Changes in other liabilities	(22)	(19)
Cash provided by operations	302	256
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	108	
Acquisitions	(18)	(1,035)
Advances to and investment in affiliates	(20)	(18)
Capital expenditures:		
Renewals and replacements	(179)	(119)
Redevelopment and other investments	(162)	(121)
Change in furniture, fixtures and equipment (FF&E) replacement fund	(2)	1
Property insurance proceeds	4	2
Cash used in investing activities	(269)	(1,290)
FINANCING ACTIVITIES		
Financing costs	(7)	(8)
Issuances of debt	450	576
Draws on credit facility	22	153
Repayment on credit facility		(50)
Repurchase/redemption of senior notes, including exchangeable debentures	(893)	(250)
Mortgage debt prepayments and scheduled maturities	(113)	(132)
Scheduled principal repayments	(2)	(2)
Common OP unit issuance	222	288
Distributions on common OP units	(79)	(21)
Contributions from non-controlling interests	1	
Distributions to non-controlling interests	(3)	(4)
Change in restricted cash for financing activities	8	5

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Cash provided by (used in) financing activities	(394)	555
DECREASE IN CASH AND CASH EQUIVALENTS	(361)	(479)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	826	1,113
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 465	\$ 634

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 15, 2012 and June 17, 2011

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended	
	June 15, 2012	June 17, 2011
Interest paid	\$ 160	\$ 144
Income taxes paid	8	4

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended June 15, 2012 and June 17, 2011, limited partners converted OP units valued at approximately \$8 million and \$4 million, respectively, in exchange for approximately 0.5 million and 0.2 million shares, respectively, of Host Inc. common stock.

On March 17, 2011, we acquired the 1,625-room Manchester Grand Hyatt San Diego, and certain related rights. In connection with the acquisition, we issued approximately 0.3 million common OP units valued at \$18.741 per unit, or approximately \$6 million.

On April 29, 2011, we acquired a 75% controlling interest in the 364-room Hilton Melbourne South Wharf. In connection with the acquisition, we assumed AUD 80 million (\$86 million) of mortgage debt and recorded the mortgage debt at its fair value at the acquisition date, which reflected a premium of \$0.5 million.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Organization****Description of Business**

Host Hotels & Resorts, Inc. operates as a self-managed and self-administered real estate investment trust (REIT), with its operations conducted solely through Host Hotels & Resorts, L.P. and its subsidiaries. Host Hotels & Resorts, L.P., a Delaware limited partnership, operates through an umbrella partnership structure, with Host Hotels & Resorts, Inc., a Maryland corporation, as its sole general partner. In the notes to the condensed consolidated financial statements, we use the terms we or our to refer to Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. together, unless the context indicates otherwise. We also use the term Host Inc. to specifically refer to Host Hotels & Resorts, Inc. and the term

Host L.P. to specifically refer to Host Hotels & Resorts, L.P. in cases where it is important to distinguish between Host Inc. and Host L.P. As of June 15, 2012, Host Inc. holds approximately 98.6% of Host L.P.'s OP units.

Consolidated Portfolio

We have 120 hotels in our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, with a total of 64,005 rooms as detailed below:

	Hotels	Rooms
United States	104	59,716
Australia	1	364
Brazil	1	245
Canada	4	1,643
Chile	2	518
Mexico	1	312
New Zealand	7	1,207
Total	120	64,005

European Joint Venture

We own a non-controlling interest in a joint venture in Europe (the Euro JV) that owns luxury and upper upscale hotels in two separate funds. We own a 32.1% interest in Fund I (11 hotels, 3,512 rooms) and a 33.4% interest in Fund II (two hotels, 676 rooms). The Euro JV hotels are located in the following countries:

	Hotels	Rooms
Italy	3	1,053
Spain	2	950
United Kingdom	2	630
Belgium	3	539
France	1	396
Poland	1	350
The Netherlands	1	270
Total	13	4,188

Asian Joint Venture

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Our joint venture in Asia (Asia/Pacific JV), in which we own a 25% non-controlling interest, owns the 278-room Citigate Perth in Australia. The Asia/Pacific JV also has a non-controlling interest in a joint venture in India that is investing in seven hotels, totaling approximately 1,750 rooms, two of which recently opened in Bangalore and five that are in various stages of development in two major cities in India.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**(Unaudited)****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 (GAAP) in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made herein 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, 2011.

The preparation of financial statements in conformity with 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.

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of June 15, 2012 and the results of our operations for the quarterly and year-to-date periods ended June 15, 2012 and June 17, 2011 and cash flows for the year-to-date periods ended June 15, 2012 and June 17, 2011. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

3. Earnings Per Common Share (Unit)**Host Inc. Earnings Per Common Share**

Basic earnings per common share is computed by dividing earnings available to common stockholders by the basic weighted average number of shares of Host Inc. common stock outstanding. Diluted earnings per common share is computed by dividing earnings available to common stockholders as adjusted for potentially dilutive securities, by the basic weighted average number of shares of Host Inc. common stock outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per common share is shown below (in millions, except per share amounts):

	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Net income	\$ 83	\$ 64	\$ 83	\$ 4
Net income attributable to non-controlling interests	(1)	(2)	(3)	(2)
Earnings available to common stockholders	82	62	80	2
Assuming conversion of exchangeable senior debentures	1			
Diluted earnings available to common stockholders	\$ 83	\$ 62	\$ 80	\$ 2

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	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Basic weighted average shares outstanding	718.1	685.7	712.8	681.5
Assuming weighted average shares for conversion of exchangeable senior debentures	11.6			
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market price	.9	1.4	1.0	1.5
Diluted weighted average shares outstanding (a)	730.6	687.1	713.8	683.0
Basic earnings per common share	\$.11	\$.09	\$.11	\$
Diluted earnings per common share	\$.11	\$.09	\$.11	\$

- (a) There were approximately 29 million and 40 million for the quarter and year-to-date periods ended June 15, 2012, respectively, and 50 million for both the quarter and year-to-date periods ended June 17, 2011, potentially dilutive shares for our exchangeable senior debentures, which shares were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the period.

Host L.P. Earnings Per Common Unit

Basic earnings per common unit is computed by dividing earnings available to common unitholders by the basic weighted average number of common OP units outstanding. Diluted earnings per common unit is computed by dividing earnings available to common unitholders as adjusted for potentially dilutive securities, by the basic weighted average number of common units outstanding plus other potentially dilutive securities. Dilutive securities may include units distributed to Host Inc. to support Host Inc. common shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per unit is shown below (in millions, except per unit amounts):

	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Net income	\$ 83	\$ 64	\$ 83	\$ 4
Net income attributable to non-controlling interests		(1)	(2)	(2)
Earnings available to common unitholders	83	63	81	2
Assuming conversion of exchangeable senior debentures	1			
Diluted earnings available to common unitholders	\$ 84	\$ 63	\$ 81	\$ 2

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	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Basic weighted average units outstanding	713.1	682.0	708.1	677.8
Assuming weighted average units for conversion of exchangeable senior debentures	11.4			
Assuming distribution of units to Host Inc. for shares granted under its comprehensive stock plans, less shares assumed purchased at market price	.9	1.3	1.0	1.4
Diluted weighted average units outstanding (a)	725.4	683.3	709.1	679.2
Basic earnings per common unit	\$.12	\$.09	\$.11	\$
Diluted earnings per common unit	\$.12	\$.09	\$.11	\$

- (a) There were approximately 28 million and 39 million for the quarter and year-to-date periods ended June 15, 2012, respectively, and 49 million for both the quarter and year-to-date periods ended June 17, 2011, potentially dilutive units for our exchangeable senior debentures, which units were not included in the computation of diluted earnings per unit because to do so would have been anti-dilutive for the period.

4. Property and Equipment

Property and equipment consists of the following (in millions):

	June 15, 2012	December 31, 2011
Land and land improvements	\$ 1,876	\$ 1,852
Buildings and leasehold improvements	13,317	13,168
Furniture and equipment	2,150	2,079
Construction in progress	157	196
	17,500	17,295
Less accumulated depreciation and amortization	(6,153)	(5,912)
	\$ 11,347	\$ 11,383

5. Debt

Mortgage debt. On June 7, 2012, we issued a \$100 million mortgage loan secured by the Hyatt Regency Reston. The loan bears interest at 1-month LIBOR plus 310 basis points and matures on July 1, 2016, with an additional one-year extension at our option, subject to meeting debt service and loan-to-value requirements and other conditions.

On April 2, 2012, we prepaid the \$113 million principal amount outstanding of the 7.5% mortgage secured by the JW Marriott, Washington, D.C., including an exit fee of \$1 million.

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Senior notes. On April 16, 2012, the holders of \$386 million face amount of 2.625% exchangeable senior debentures due 2027 (the 2007 Debentures) exercised their option to require us to repurchase their debentures at par. As of June 15, 2012, \$2 million of the 2007 Debentures are outstanding.

On April 13, 2012, we redeemed \$250 million of our 6 ⁷/₈ % Series S senior notes due in 2014, and on May 29, 2012, we redeemed the remaining \$250 million Series S notes, resulting in a total loss on extinguishment of \$12 million, which has been included in interest expense.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**6. Equity of Host Inc. and Capital of Host L.P.
Equity of Host Inc.**

Equity of Host Inc. is allocated between controlling and non-controlling interests as follows (in millions):

	Equity of Host Hotels & Resorts, Inc.	Non-redeemable non-controlling interests	Total equity	Redeemable non-controlling interests
Balance, December 31, 2011	\$ 6,677	\$ 36	\$ 6,713	\$ 158
Net income	80	2	82	1
Issuance of common stock	235		235	
Dividends declared on common stock	(42)		(42)	
Other changes in ownership	(3)	(2)	(5)	1
Other comprehensive loss	(6)		(6)	
Balance, June 15, 2012	\$ 6,941	\$ 36	\$ 6,977	\$ 160

Capital of Host L.P.

As of June 15, 2012, Host Inc. is the owner of approximately 98.6% of Host L.P.'s common OP units. The remaining 1.4% of the common OP units are held by third party limited partners. Each OP unit may be redeemed for cash or, at the election of Host Inc., Host Inc. common stock, based on the conversion ratio of 1.021494 shares of Host Inc. common stock for each OP unit.

In exchange for any shares issued by Host Inc., Host L.P. will issue OP units to Host Inc. based on the applicable conversion ratio. Additionally, funds used by Host Inc. to pay dividends on its common stock are provided by distributions from Host L.P.

Capital of Host L.P. is allocated between controlling and non-controlling interests as follows (in millions):

	Capital of Host L.P.	Non-controlling interests	Total Capital	Limited Partnership Interests of Third Parties
Balance, December 31, 2011	\$ 6,677	\$ 36	\$ 6,713	\$ 158
Net income	80	2	82	1
Issuance of common OP units	235		235	
Distributions declared on common OP units	(42)		(42)	
Other changes in ownership	(3)	(2)	(5)	1
Other comprehensive loss	(6)		(6)	
Balance, June 15, 2012	\$ 6,941	\$ 36	\$ 6,977	\$ 160

Issuance of Common Stock

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On April 24, 2012, we entered into Sales Agency Financing Agreements with BNY Mellon Capital Markets, LLC and Scotia Capital (USA) Inc., through which Host Inc. may issue and sell, from time to time, shares having an aggregate offering price of \$400 million in at the market offerings under SEC rules, including sales made directly on the NYSE. During the second quarter, we issued 3.1 million shares of

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common stock under this program, at an average price of \$15.75 per share, for proceeds of approximately \$48 million, net of \$0.5 million of commissions. Shares of Host Inc.'s common stock, having an aggregate offering price of approximately \$351 million, remain issuable from time to time under the agreements. Any additional shares of common stock issued by Host Inc., whether issued under this program or otherwise, would be available in the future for sale in the public markets. Year-to-date, we have issued 14.2 million shares, at an average price of \$15.69 per share, for proceeds of approximately \$220 million, net of \$2.2 million of commissions. This includes 11.1 million shares issued in the first quarter under our previous sales agency financing agreement.

Dividends/Distributions

On June 18, 2012, Host Inc.'s Board of Directors declared a dividend of \$.07 per share on its common stock. The dividend was paid on July 16, 2012 to stockholders of record as of June 29, 2012. Accordingly, Host L.P. made a distribution of \$0.07150458 per unit on its common OP units based on the current conversion ratio.

7. Dispositions

On March 23, 2012, we disposed of the San Francisco Airport Marriott for proceeds of approximately \$108 million, plus \$5 million for the FF&E replacement fund. We recorded a gain on the disposition of approximately \$48 million. Additionally, during the second quarter of 2012, we reclassified the Rocky Hill Marriott as held-for-sale. The following table summarizes revenues, income (loss) before income taxes, and the gain on disposition of the hotel which have been included in discontinued operations for all periods presented (in millions):

	Quarter ended		Year-to-date ended	
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011
Revenues	\$ 2	\$ 14	\$ 15	\$ 26
Income (loss) before income taxes		(2)	2	(3)
Gain on dispositions			48	

8. Acquisitions and New Development

On July 16, 2012, we acquired the 888-room Grand Hyatt Washington, D.C. for approximately \$400 million. In connection with the acquisition, we paid a \$7 million termination fee to settle the seller's liability for the interest rate swap derivative associated with the previous mortgage on the property, which mortgage was repaid at closing by the seller, and acquired other related assets for \$2 million. Additionally, we incurred \$6 million of closing costs, which will be expensed in the third quarter and acquired a \$6 million FF&E replacement fund. Due to the timing between the date of the acquisition and issuance of this quarterly report, we have not completed the final accounting for the acquisition and, therefore, we have not disclosed pro forma financial information.

On June 8, 2012, we acquired land and entered into a construction agreement to develop two hotels in Rio de Janeiro, Brazil. We expect to spend a total of approximately R\$129 million (\$72 million) to develop the hotels and have spent approximately R\$36 million (\$18 million) as of June 15, 2012. Subsequent to quarter end, we spent an additional R\$11 million (\$5 million). The hotels will be managed by Accor under the ibis and Novotel brands.

In May 2012, we entered into a joint venture agreement with White Lodging Services in which we are a 50% partner to develop the 255-room Hyatt Place in downtown Nashville, Tennessee for a total price of approximately \$46 million, including the purchase of the land. The joint venture intends to finance approximately 75% of the project through third-party debt. We expect to spend approximately \$5 million

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for our investment in the joint venture. Due to the significant control rights of our partner, we will not consolidate the joint venture.

9. Fair Value Measurements

Our recurring fair value measurements consist of the valuation of our derivative instruments, the majority of which are designated as accounting hedges. As of June 15, 2012, there were no non-recurring fair value measurements. As of December 31, 2011, non-recurring fair value measurements consisted of the impairment of two of our hotel properties, one of which was sold in 2011.

In evaluating the fair value of both financial and non-financial assets and liabilities, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability at the measurement date in an orderly transaction (an exit price). Assets and liabilities are measured using inputs from three levels of the fair value hierarchy. The three levels are as follows:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. An active market is defined as a market in which transactions occur with sufficient frequency and volume to provide pricing on an ongoing basis.

Level 2 Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data correlation or other means.

Level 3 Unobservable inputs reflect our assumptions about the pricing of an asset or liability when observable inputs are not available.

The following tables detail the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis, as well as non-recurring fair value measurements (there were none as of the end of the second quarter), at June 15, 2012 and December 31, 2011, respectively (in millions):

		Fair Value at Measurement Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Balance at June 15, 2012				
<i>Fair Value Measurements on a Recurring Basis:</i>					
Assets					
Interest rate swap derivatives (a)	\$ 9.7	\$	\$	9.7	\$
Forward currency sale contracts (a)	13.5			13.5	
Liabilities					
Interest rate swap derivatives (a)	\$ (6.4)	\$	\$	(6.4)	\$

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		Fair Value at Measurement Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Balance at December 31, 2011				
Fair Value Measurements on a Recurring Basis:					
Assets					
Interest rate swap derivatives (a)	\$ 10.9	\$	\$ 10.9	\$	
Forward currency sale contract (a)	10.8		10.8		
Liabilities					
Interest rate swap derivatives (a)	\$ (4.2)	\$	\$ (4.2)	\$	
Fair Value Measurements on a Non-recurring Basis:					
Impaired hotel properties held and used (b)	5		5		
Impaired hotel properties sold (b)			6		

(a) These derivative contracts have been designated as hedging instruments.

(b) The fair value measurements are as of the measurement date of the impairment and may not reflect the book value as of December 31, 2011.

Derivatives and Hedging

Interest rate swap derivatives designated as cash flow hedges. We have designated our floating-to-fixed interest rate swap derivatives as cash flow hedges. The derivatives are valued based on the prevailing market yield curve on the date of measurement. We also evaluate counterparty credit risk when we calculate the fair value of the swaps. Changes in the fair value of the derivatives are recorded to other comprehensive income (loss). The hedges were fully effective as of June 15, 2012.

As of June 15, 2012, we had two interest rate swap agreements designated as cash flow hedges. We recorded the change in fair value to other comprehensive income (loss) of \$(3.9) million and \$(2.4) million for the quarters ended June 15, 2012 and June 17, 2011, respectively, and \$(2.2) million and \$(3.6) million for the year-to-date periods ended June 15, 2012 and June 17, 2011, respectively.

Interest rate swap derivatives designated as fair value hedges. We have designated our fixed-to-floating interest rate swap derivatives as fair value hedges. We enter into these derivative instruments to hedge changes in the fair value of fixed-rate debt that occur as a result of changes in market interest rates. The derivatives are valued based on the prevailing market yield curve on the date of measurement. We also evaluate counterparty credit risk in the calculation of the fair value of the swaps. The changes in the fair value of the derivatives are offset largely by corresponding changes in the fair value of the underlying debt due to changes in the 3-month LIBOR rate, which change is recorded as an adjustment to the carrying amount of the debt. Any difference between the change in the fair value of the swap and the change in the fair value in the underlying debt, which was not significant for the periods presented, is considered the ineffective portion of the hedging relationship and is recognized in net income.

We have three fixed-to-floating interest rate swap agreements for an aggregate notional amount totaling \$300 million related to The Ritz-Carlton, Naples and Newport Beach Marriott Hotel & Spa mortgage loan in the amount of \$300 million. During the quarters ended June 15, 2012 and June 17, 2011, the fair value of the swaps decreased \$1.0 million and increased \$3.7 million, respectively. During the year-to-date periods ended June 15, 2012 and June 17, 2011, the fair value of the swaps decreased \$1.2 million and increased \$2.1 million, respectively.

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Foreign Currency Forward Sale Contracts. We have six foreign currency forward sale contracts that hedge a portion of the foreign currency exposure resulting from the eventual repatriation of our net investments in foreign operations. These derivatives are considered a hedge of the foreign currency exposure of a net investment in a foreign operation with changes in fair value recorded to accumulated other comprehensive income (loss). The forward sale contracts are valued based on the forward yield curve of the foreign currency to U.S. dollar exchange rate on the date of measurement. We evaluate counter-party credit risk when we calculate the fair value of these derivatives. The following table summarizes our foreign currency sale contracts (in millions):

Transaction	Total Transaction Amount	Total Transaction Amount	Forward	Fair Value at		Change in Fair Value for the year-to-date ended	
Date Range	in Foreign Currency	in Dollars	Purchase Date Range	June 15, 2012	December 31, 2011	June 15, 2012	June 17, 2011
February 2008- July 2011			October 2012-				
	100	\$ 140	August 2015	\$ 12.1	\$ 8.8	\$ 3.3	\$ (5.7)
July 2011	NZ\$ 30	\$ 25	August 2013	\$ 1.4	\$ 1.9	\$ (0.5)	\$

Other Assets and Liabilities

Fair Value of Other Financial Assets and Liabilities. We did not elect the fair value measurement option for any of our financial assets or liabilities. Notes receivable and other financial assets are valued based on the expected future cash flows, discounted at risk-adjusted rates, and are adjusted to reflect the effects of foreign currency translation. Valuations for secured debt and the credit facility are determined based on expected future payments, discounted at risk-adjusted rates. Senior Notes and the Exchangeable Senior Debentures are valued based on quoted market prices. The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts. The fair values of certain financial assets and liabilities and other financial instruments are shown below (in millions):

	June 15, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Mortgage notes receivable (Level 2)	\$ 66	\$ 77	\$ 65	\$ 76
Financial liabilities				
Senior notes (Level 1)	3,487	3,672	3,641	3,772
Exchangeable Senior Debentures (Level 1)	525	712	902	1,076
Credit facility (Level 2)	138	138	117	117
Mortgage debt and other, net of capital leases (Level 2)	1,075	1,091	1,091	1,114

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10. Geographic Information

We consider each one of our 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 other real estate investment activities (primarily our leased hotels and office buildings) are immaterial and, with our operating segments, meet the aggregation criteria. Thus, we report one segment: hotel ownership. As of June 15, 2012, our foreign operations consist of 16 hotels in six countries. There were no intercompany sales during the periods presented. The following table presents total revenues and property and equipment for each of the geographical areas in which we operate (in millions):

	Revenues				Property and Equipment, net	
	Quarter ended		Year-to-date ended		June 15, 2012	December 31, 2011
	June 15, 2012	June 17, 2011	June 15, 2012	June 17, 2011		
United States	\$ 1,296	\$ 1,210	\$ 2,230	\$ 2,060	\$ 10,840	\$ 10,874
Australia	10	4	16	4	131	136
Brazil	8	9	14	14	38	42
Canada	28	30	52	53	127	126
Chile	11	8	15	12	61	58
Mexico	6	6	10	10	22	23
New Zealand	9	8	14	9	128	124
United Kingdom		9		14		
Total	\$ 1,368	\$ 1,284	\$ 2,351	\$ 2,176	\$ 11,347	\$ 11,383

11. Non-controlling Interests

Other Consolidated Partnerships. We consolidate five majority-owned partnerships that have third-party, non-controlling ownership interests. The third-party partnership interests are included in non-controlling interest other consolidated partnerships on the unaudited condensed consolidated balance sheets and totaled \$36 million as of June 15, 2012 and December 31, 2011. Three of the partnerships have finite lives ranging from 99 to 100 years that terminate between 2081 and 2095, and the associated non-controlling interests are mandatorily redeemable at our option at the end of, but not prior to, the finite life. At June 15, 2012 and December 31, 2011, the fair values of the non-controlling interests in the partnerships with finite lives were approximately \$65 million and approximately \$67 million, respectively.

Net income attributable to non-controlling interests of consolidated partnerships is included in our determination of net income. Net income attributable to non-controlling interests of third parties is immaterial for the quarter ended June 15, 2012, \$1 million for the quarter ended June 17, 2011, and \$2 million for the year-to-date periods ended June 15, 2012 and June 17, 2011, which is included in the determination of net income attributable to Host Inc. and Host L.P.

Host Inc.'s treatment of the non-controlling interests of Host L.P.: Host Inc. adjusts the non-controlling interests of Host L.P. each period so that the amount presented equals the greater of its carrying value based on the accumulated historical cost or its redemption value. The historical cost is based on the proportional relationship between the historical cost of equity held by our common stockholders relative to that of the unitholders of Host L.P. The redemption value is based on the amount of cash or Host Inc. stock, at our option, that would be paid to the non-controlling interests of Host L.P. if it were terminated. Therefore, the redemption value of the common OP units is equivalent to the number of shares issuable upon conversion of the common OP units held by third parties valued at the market price of Host Inc. common stock at the balance sheet date. Subsequent to the stock dividend issued in 2009, one common OP unit now may be exchanged into 1.021494 shares of Host Inc. common stock. Non-controlling interests of Host L.P. are classified in the mezzanine section of the balance sheet as they do not meet the requirements for equity

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classification because the redemption feature requires the delivery of registered shares. The table below details the historical cost and redemption values for the non-controlling interests:

	June 15, 2012	December 31, 2011
OP units outstanding (millions)	10.0	10.5
Market price per Host Inc. common share	\$ 15.58	\$ 14.77
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	\$ 160	\$ 158
Historical cost (millions)	\$ 100	\$ 102
Book value (millions) (a)	\$ 160	\$ 158

(a) The book value recorded is equal to the greater of the redemption value or the historical cost.

Net income (loss) is allocated to the non-controlling interests of Host L.P. based on their weighted average ownership percentage during the period. Net income attributable to Host Inc. has been reduced by the amount attributable to non-controlling interests in Host L.P. The income attributable to the non-controlling interests of Host L.P. was \$1 million for the quarter and year-to-date ended June 15, 2012, as well as the quarter ended June 17, 2011, and immaterial for the year-to-date period ended June 17, 2011.

12. Legal Proceedings

We are involved in various legal proceedings in the normal course of business regarding the operation of our hotels and company matters. To the extent not covered by insurance, these lawsuits generally fall into the following broad categories: disputes involving hotel-level contracts, employment litigation, compliance with laws such as the Americans with Disabilities Act, tax disputes and other general matters. Under our management agreements, our operators have broad latitude to resolve individual hotel-level claims for amounts generally less than \$150,000. However, for matters exceeding such threshold, our operators may not settle claims without our consent. We currently are involved in a dispute with the Department of Taxation of the State of Hawaii over the application of a statutory sublease deduction to hotel guest room revenues and receipts. We have filed a motion for summary judgment, which currently is set for hearing on September 24, 2012.

Based on our analysis of legal proceedings with which we are currently involved or of which we are aware and our experience in resolving similar claims in the past, we have accrued approximately \$5 million as of June 15, 2012 and estimate that, in the aggregate, our losses related to these proceedings could be as much as \$37 million. We believe this range represents the maximum potential loss for all of our legal proceedings, with the exception of the San Antonio litigation discussed below. We are not aware of any other matters with a reasonably possible unfavorable outcome for which disclosure of a loss contingency is required. No assurances can be given as to the outcome of any pending legal proceedings.

We also have accrued a loss contingency of approximately \$57 million related to the litigation concerning the ground lease for the San Antonio Marriott Rivercenter. In relation to this legal proceeding, we have funded a court-ordered \$25 million escrow reserve, which is included in restricted cash. For further detail on this legal proceeding, see Part II, Item 1, Legal Proceedings, of our Quarterly Report on Form 10-Q for the quarter ended March 23, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this report. Host Inc. operates as a self-managed and self-administered REIT. Host Inc. is the sole general partner of Host L.P. and holds 98.6% of its partnership interests. Host L.P. is a limited partnership operating through an umbrella partnership structure.

Forward-Looking Statements

In this report on Form 10-Q, we make some forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, expect, may, intend, predict, project, plan, will, estimate and other similar terms and phrases, including references to assumptions and forecasts of future results. Forward-looking statements are based on management's current expectations and assumptions and are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results to differ materially from those anticipated at the time the forward-looking statements are made.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

the effect on lodging demand of (i) changes in national and local economic and business conditions, including concerns about global economic prospects and the speed and strength of a recovery, and (ii) other factors such as natural disasters, weather, and the occurrence or potential occurrence of terrorist attacks, all of which will affect occupancy rates at our hotels and the demand for hotel products and services;

operating risks associated with the hotel business;

the continuing volatility in global financial and credit markets, and the impact of pending and future U.S. governmental action to address budget deficits through reductions in spending and similar austerity measures, which could materially adversely affect the U.S. and global economic conditions, business activity, credit availability, borrowing costs, and lodging demand;

the impact of geopolitical developments outside the United States, such as the sovereign credit issues in certain countries in the European Union, or unrest in the Middle East, which could affect the relative volatility of global credit markets generally, global travel and lodging demand, including for our foreign hotel properties;

the effect of rating agency downgrades of our debt securities on the cost and availability of new debt financings;

the reduction in our operating flexibility and the limitation on our ability to pay dividends and make distributions resulting from restrictive covenants in our debt agreements, which limit the amount of distributions from Host L.P. to Host Inc., and other risks associated with the level of our indebtedness or related to restrictive covenants in our debt agreements, including the risk of default that could occur;

our ability to maintain our properties in a first-class manner, including meeting capital expenditure requirements, and the effect of renovations on our hotel occupancy and financial results;

our ability to compete effectively in areas such as access, location, quality of accommodations and room rate structures;

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our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with our expectations;

relationships with property managers and joint venture partners and our ability to realize the expected benefits of our joint ventures and other strategic relationships;

our ability to recover fully under our existing insurance policies for terrorist acts and our ability to maintain adequate or full replacement cost all-risk property insurance policies on our properties on commercially reasonable terms;

the effects of tax legislative action and other changes in laws and regulations, or the interpretation thereof, including the need for compliance with new environmental and safety requirements; and

the ability of Host Inc. and each of the REIT entities acquired, established or to be established by Host Inc. to continue to satisfy complex rules to qualify as REITs for federal income tax purposes, Host L.P.'s

ability to satisfy the rules required to maintain its status as a partnership for federal income tax purposes, and Host Inc.'s and Host L.P.'s ability and the ability of our subsidiaries, and similar entities to be acquired or established by us to operate effectively within the limitations imposed by these rules.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions, including those risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2011 and in other filings with the Securities and Exchange Commission (SEC). Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material.

Outlook

As of July 19, 2012, we owned 121 hotel properties, which operate primarily in the luxury and upper upscale hotel sectors. For a general overview of our business and a discussion of our reporting periods, see our most recent Annual Report on Form 10-K.

Operating Results and Outlook. Comparable hotel RevPAR increased 6.1% for both the quarter and year-to-date, as the slowly improving economy and low supply growth in the lodging industry continue to gradually strengthen lodging fundamentals. The RevPAR increases were driven primarily by improvements in average room rates coupled with continued occupancy growth. For the quarter and year-to-date of 2012, average room rates improved 3.7% and 3.3%, respectively, while occupancy improved 1.7 percentage points to 77.6% and 1.9 percentage points to 73.7%, respectively. If we reported on a calendar quarter basis, comparable hotel RevPAR would have increased 6.8% for the second quarter of 2012 compared to 2011.

Operating margins (calculated based on U.S. generally accepted accounting principles (GAAP) operating profit as a percentage of revenues) increased 140 basis points and 170 basis points for the second quarter and year-to-date of 2012, respectively. Operating margins calculated using GAAP measures are affected significantly by several items, including our most recent acquisitions. Our comparable hotel adjusted operating profit margins, which exclude, among other items, operations from our recently acquired hotels, depreciation and corporate expenses, increased 120 basis points and 110 basis points for the quarter and year-to-date of 2012, respectively, reflecting the overall room rate growth, along with improved cost controls at the properties.

Due to the lack of new construction starts in recent years, we believe that supply growth should remain below historical averages in the lodging industry for 2012 and 2013. We believe that operators will continue to benefit from this supply/demand imbalance by increasing average daily rate throughout the year. Therefore, we believe that the positive trends experienced thus far in 2012 should continue and that comparable hotel RevPAR will increase 5.5% to 7.0% for 2012.

While lodging demand continued to improve, several key factors continue to negatively affect the economic recovery and add to general market uncertainty. These factors include, but are not limited to: (i) the uncertain financial environment in Europe, (ii) continued high levels of unemployment and the slowdown of the U.S. economic recovery in the second quarter, and (iii) uncertainty surrounding U.S. fiscal policy. Therefore, while we believe that lodging demand will continue to increase throughout 2012, there can be no assurance that any increases in hotel revenues or earnings at our properties or improvement in margins will continue for any number of reasons, including those listed above.

Investing activities outlook

Property acquisitions and other investments outlook. We believe that the lodging industry will continue to present opportunities to invest in full-service assets at a discount to replacement cost with high growth potential that will achieve returns at an attractive premium to our cost of funds. While the global economic outlook is unclear, the on-going strength of hotel performance, particularly in gateway markets, is continuing to create a favorable environment for both buyers and sellers. Additionally, we anticipate that we will see acquisition opportunities driven by debt maturities in 2012 and 2013 on over-leveraged assets that were financed or refinanced during the prior

cycle. As the recovery continues, we believe we will see more competition in the acquisition market, especially from private equity and foreign sovereign wealth funds. Additionally, the important business considerations surrounding hotel acquisitions make the timing of any acquisitions difficult to predict.

On July 16, 2012, we acquired the 888-room Grand Hyatt Washington, D.C. for approximately \$400 million. In connection with the acquisition, we paid a \$7 million termination fee to settle the seller's liability for the interest rate swap derivative associated with the previous mortgage on the property, which mortgage was repaid at closing by the seller, and acquired other related assets for \$2 million. Additionally, we incurred \$6 million of closing costs, which will be expensed in the third quarter and acquired a related \$6 million FF&E replacement fund.

Consistent with our strategy to expand our investments to include the acquisition or development of midscale and upscale properties, particularly in urban or foreign markets, we entered into two development projects during the quarter. On June 8, 2012, we acquired land and entered into a construction agreement to develop two hotels, totaling 405 rooms, in Rio de Janeiro, Brazil. We expect to spend a total of approximately R\$129 million (\$72 million) to develop the hotels and have currently invested approximately R\$47 million (\$23 million). Construction has commenced and the hotels are expected to open mid-year 2014. The hotels will be managed by Accor under the ibis and Novotel brands. Also, in May 2012, we entered into a 50/50 joint venture agreement with White Lodging Services to develop a 255-room Hyatt Place in Nashville, Tennessee. The total cost of the project is expected to be approximately \$46 million, including the purchase of the land. The joint venture intends to finance approximately 75% of the project through third-party debt. We expect to spend approximately \$5 million for our investment in the joint venture. Construction has commenced and the hotel is expected to open in December 2013.

Redevelopment and Return on Investment Projects. We believe these projects increase cash flow and improve profitability by capitalizing on changing market conditions and the favorable locations of our properties. As more fully discussed in our annual report on Form 10-K, we classify these capital projects as follows: redevelopment, targeted return on investment (ROI), value enhancement, and acquisition expenditures. During the first half of 2012, we invested a total of \$162 million on these projects, including \$64 million on acquisition capital expenditures, as compared to a total of \$121 million for the corresponding period in 2011. These investments included completing the rooms renovation phase of the redevelopment at the 1,778-room Sheraton New York Hotel & Towers and the conversion of one tower at the Sheraton Indianapolis to apartments. For the full year 2012, we expect that our redevelopment and return on investment capital expenditures will total \$165 to \$175 million and our acquisition capital expenditures will total \$115 to \$125 million.

Renewal and Replacement Capital Expenditures. We invested approximately \$79 million and \$179 million in renewal and replacement expenditures during the second quarter and year-to-date of 2012, respectively. Major renewal and replacement projects completed during the second quarter included 1,100 rooms at the Boston Marriott Copley Place, all 891 rooms at the Westin Seattle and over 30,000 square feet of meeting and public space at the Swissôtel Chicago. We expect that renewal and replacement expenditures for 2012 will total approximately \$310 million to \$330 million.

Financing activities outlook

We continue to focus on our overall goal to strengthen our balance sheet by lowering our debt-to-equity ratio and extending debt maturities as we strategically raise and deploy capital in order to improve our overall leverage and coverage ratios. As a result of the improving operating environment and the flexibility provided by our credit facility, we anticipate that, over time, we will reduce our overall cash balances. We believe, based on the overall strength of our balance sheet, that we have sufficient liquidity and access to the capital markets in order to pay our near-term debt maturities, fund our capital expenditure programs and take advantage of investment opportunities (for a detailed discussion, see Liquidity and Capital Resources).

Debt Transactions. On June 7, 2012, we issued a \$100 million mortgage loan secured by the Hyatt Regency Reston. The loan bears interest at 1-month LIBOR plus 310 basis points (3.34% at June 15, 2012) and matures on July 1, 2016, with an additional one-year extension at our option subject to debt service and loan-to-value requirements and other conditions. On April 2, 2012, we prepaid the \$113 million principal amount outstanding of the 7.5% mortgage secured by the JW Marriott, Washington, D.C., including an exit fee of \$1 million.

During the quarter, we redeemed \$500 million of our 6⁷/₈% Series S senior notes due in 2014, resulting in a total loss on extinguishment of \$12 million. Additionally, on April 16, 2012, the holders of \$386 million face amount of 2.625% exchangeable senior debentures due 2027 (the 2007 Debentures) exercised their option to require us to repurchase their debentures at par. As of June 15, 2012, \$2 million of the 2007 Debentures are still outstanding.

We have also received commitments from a number of banks and expect to raise \$500 million through a term loan under an amendment to our existing credit facility. The term loan will have a five-year maturity and, based on our current leverage ratios, will have an interest rate of LIBOR plus a margin of 180 basis points (or approximately a 2.1% all-in interest rate). We intend to use the proceeds to repay \$100 million outstanding under the revolver portion of our facility and to repay other debt. For a further description of the term loan, see Debt Term Loan.

Equity Transactions. On April 24, 2012, we entered into Sales Agency Financing Agreements with BNY Mellon Capital Markets, LLC and Scotia Capital (USA) Inc., through which Host Inc. may issue and sell, from time to time, shares having an aggregate offering price of \$400 million in at the market offerings under SEC rules, including sales made directly on the NYSE. During the second quarter, we issued 3.1 million shares of common stock under this program, at an average price of \$15.75 per share, for proceeds of approximately \$48 million, net of \$0.5 million of commissions. Shares of Host Inc.'s common stock, having an aggregate offering price of approximately \$351 million, remain issuable from time to time under the agreements. Any additional shares of common stock issued by Host Inc., whether issued under this program or otherwise, would be available in the future for sale in the public markets. Year-to-date, we have issued 14.2 million shares, at an average price of \$15.69 per share, for proceeds of approximately \$220 million, net of \$2.2 million of commissions. This includes 11.1 million shares issued in the first quarter under our previous sales agency financing agreement.

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):

	Quarter ended		
	June 15, 2012	June 17, 2011	% Increase (Decrease)
Revenues:			
Owned hotel revenues	\$ 1,303	\$ 1,223	6.5%
Other revenues (a)	65	61	6.6%
Operating costs and expenses:			
Property-level costs (b)	1,167	1,110	5.1%
Corporate and other expenses	21	22	(4.5)%
Operating profit	180	152	18.4%
Interest expense	94	89	5.6%
Loss from discontinued operations		3	(100)%
All hotel operating statistics (c):			
RevPAR	\$ 149.80	\$ 140.28	6.8%
Average room rate	\$ 194.37	\$ 186.20	4.4%
Average occupancy	77.1%	75.3%	1.8 pts.
Comparable hotel operating statistics (d):			
RevPAR	\$ 151.47	\$ 142.79	6.1%
Average room rate	\$ 195.32	\$ 188.34	3.7%
Average occupancy	77.6%	75.8%	1.7 pts.
Host Inc.:			
Net income attributable to non-controlling interests	\$ 1	\$ 2	(50.0)%
Net income attributable to Host Hotels & Resorts, Inc.	82	62	32.3%
Host L.P.:			
Net income attributable to non-controlling interest	\$	\$ 1	(100)%
Net income attributable to Host Hotels & Resorts L.P.	83	63	31.7%

	Year-to-date ended		
	June 15, 2012	June 17, 2011	% Increase (Decrease)
Revenues:			
Owned hotel revenues	\$ 2,227	\$ 2,059	8.2%
Other revenues (a)	124	117	6.0%
Operating costs and expenses:			
Property-level costs (b)	2,107	1,980	6.4%
Corporate and other expenses	43	47	(8.5)%
Operating profit	201	149	34.9%
Interest expense	180	171	5.3%
Income (loss) from discontinued operations	50	(3)	N/M
All hotel operating statistics (c):			
RevPAR	\$ 138.67	\$ 129.67	6.9%
Average room rate	\$ 188.77	\$ 182.01	3.7%
Average occupancy	73.5%	71.2%	2.3 pts.
Comparable hotel operating statistics (d):			
RevPAR	\$ 139.86	\$ 131.85	6.1%
Average room rate	\$ 189.67	\$ 183.55	3.3%
Average occupancy	73.7%	71.8%	1.9 pts.
Host Inc.:			
Net income attributable to non-controlling interests	\$ 3	\$ 2	50%
Net income attributable to Host Hotels & Resorts, Inc.	80	2	N/M
Host L.P.:			
Net income attributable to non-controlling interest	\$ 2	\$ 2	
Net income attributable to Host Hotels & Resorts L.P.	81	2	N/M

- (a) The periods ended June 15, 2012 and June 17, 2011 include the results of the 53 Courtyard by Marriott properties leased from Hospitality Properties Trust (HPT), whose operations we consolidated beginning July 7, 2010 as a result of the termination of the sublease with our subtenant. The lease expires December 31, 2012.
- (b) Amount represents total operating costs and expenses from our unaudited condensed consolidated statements of operations less corporate expenses and includes costs associated with the properties leased from HPT.
- (c) Operating statistics are for all properties as of June 15, 2012 and June 17, 2011, and include the results of operations for certain hotels prior to their disposition.
- (d) Comparable hotel operating statistics for the year-to-date periods and quarters ended June 15, 2012 and June 17, 2011 are based on 106 comparable hotels as of June 15, 2012.
- N/M=Not meaningful.

2012 Compared to 2011*Hotel Sales Overview*

The following tables present revenues in accordance with GAAP and includes both comparable and non-comparable hotels (in millions, except percentages):

	Quarter ended		
	June 15, 2012	June 17, 2011	% Increase
Revenues:			
Rooms	\$ 823	\$ 773	6.5%
Food and beverage	400	376	6.4
Other	80	74	8.1
Owned hotel revenues	1,303	1,223	6.5
Other revenues	65	61	6.6
Total revenues	\$ 1,368	\$ 1,284	6.5

	Year-to-date ended		
	June 15, 2012	June 17, 2011	% Increase
Revenues:			
Rooms	\$ 1,395	\$ 1,288	8.3%
Food and beverage	693	643	7.8
Other	139	128	8.6
Owned hotel revenues	2,227	2,059	8.2
Other revenues	124	117	6.0
Total revenues	\$ 2,351	\$ 2,176	8.0

Total revenues increased \$84 million, or 6.5%, to \$1,368 million and \$175 million, or 8.0%, to \$2,351 million for the quarter and year-to-date ended June 15, 2012, respectively. These increases primarily resulted from increased demand, which resulted in growth in room and food and beverage revenue. In addition, our year-to-date 2012 revenues benefited from the results of the ten hotels that we acquired during the first quarter of 2011 (our Recent Acquisitions). As these hotels were owned for both the second quarter of 2011 and 2012, our discussion of improvement in operations in the second quarter of 2012 reflects the contribution of the Recent Acquisitions. In our discussion of operating revenues and expenses year-to-date, however, we have separated the effect of the Recent Acquisitions to help investors distinguish between improvements in continuing operations from growth provided by acquisitions. Additionally, revenues and expenses for the two properties sold in 2011 and 2012, as well as one property classified as held-for-sale, have been reclassified to discontinued operations.

Rooms. Room revenues increased \$50 million, or 6.5%, to \$823 million and \$107 million, or 8.3%, to \$1,395 million for the quarter and year-to-date ended June 15, 2012, respectively, due to the improved room rates and occupancy levels as comparable RevPAR increased 6.1% for both periods. In addition, room revenues for the year-to-date ended June 15, 2012 increased \$38 million due to incremental revenues from our Recent Acquisitions.

Food and beverage. Food and beverage (F&B) revenues increased \$24 million, or 6.4%, to \$400 million and \$50 million, or 7.8%, to \$693 million for the quarter and year-to-date ended June 15, 2012, respectively, which was driven by continued improvements in banquet and audio visual revenues. In addition, F&B revenues for the year-to-date ended June 15, 2012 includes \$15 million of incremental revenues from our Recent Acquisitions.

Other revenues from owned hotels. For the quarter and year-to-date ended June 15, 2012, other revenues from owned hotels increased \$6 million, or 8.1%, to \$80 million and \$11 million, or 8.6%, to \$139 million, respectively, which includes a 2.8% and 2.4% increase in

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comparable hotels for the quarter and year-to-date. Other revenues from owned hotels also increased \$3 million, or 4.1%, and \$5 million, or 3.9%, for the second quarter and year-to-date ended June 15, 2012, respectively, due to the inclusion of Tiburon Golf Ventures, L.P., following the acquisition of a controlling interest thereof on September 1, 2011.

Comparable Portfolio Operating Results. We discuss operating results for our hotels on a comparable basis. Comparable hotels are those properties that we have consolidated 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 or business interruption or large scale capital projects during these periods. As of June 15, 2012, 106 of our 120 owned hotels have been classified as comparable hotels. The 14 non-comparable hotels include the ten acquired in 2011 and four hotels currently undergoing large-scale capital projects. See **Comparable Hotel Operating Statistics** for a complete description of our comparable hotels. We also discuss our comparable operating results by property type (i.e. urban, suburban, resort/conference or airport), geographic region and mix of business (i.e. transient, group or contract).

Comparable Hotel Sales by Property Type

The following tables set forth performance information for our comparable hotels by property type as of June 15, 2012 and June 17, 2011:

Comparable Hotels by Property Type (a)

	As of June 15, 2012		Quarter ended June 15, 2012			Quarter ended June 17, 2011			Percent Change in RevPAR
	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentage	RevPAR	Average Room Rate	Average Occupancy Percentage	RevPAR	
Urban	53	33,223	\$ 207.71	79.1%	\$ 164.25	\$ 200.57	77.3%	\$ 154.96	6.0%
Suburban	28	10,572	153.11	71.6	109.57	148.15	70.3	104.18	5.2
Resort/Conference	13	8,083	243.07	76.6	186.11	234.26	74.5	174.46	6.7
Airport	12	5,592	126.33	81.1	102.50	120.34	79.5	95.61	7.2
All Types	106	57,470	195.32	77.6	151.47	188.34	75.8	142.79	6.1

	As of June 15, 2012		Year-to-date ended June 15, 2012			Year-to-date ended June 17, 2011			Percent Change in RevPAR
	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentage	RevPAR	Average Room Rate	Average Occupancy Percentage	RevPAR	
Urban	53	33,223	\$ 199.31	74.2%	\$ 147.82	\$ 193.44	72.0%	\$ 139.31	