HOST HOTELS & RESORTS, INC.
Form 10-K
February 27, 2007
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2006 **Commission file number 001-14625**

HOST HOTELS & RESORTS, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**53-0085950**
(State of Incorporation)	**(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)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value (523,784,228 shares outstanding as of February 14, 2007) and Purchase share rights for Series A Junior Participating Preferred Stock, $.01 par value	New York Stock Exchange
Class E Preferred Stock, $.01 par value (4,034,400 shares outstanding as of February 14, 2007)	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of shares of common stock held by non-affiliates of the registrant as of June 16, 2006 (based on the closing sale price as reported on the New York Stock Exchange on June 16, 2006) was approximately $10,644,088,096.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with its annual meeting of stockholders to be held on May 17, 2007 are incorporated by reference into Part III of this Form 10-K.

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Host Hotels & Resorts, Inc.

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Item 1. Business

Host Hotels & Resorts, Inc. is a Maryland corporation that operates as a self-managed and self-administered real estate investment trust, or REIT. Host Hotels & Resorts, Inc. owns properties and conducts operations through Host Hotels & Resorts, L.P., a Delaware limited partnership, of which Host Hotels & Resorts, Inc. is the sole general partner and in which it holds approximately 96.5% of the partnership interests. In this report, 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 to specifically refer to Host Hotels & Resorts, Inc. and the term Host LP to refer to Host Hotels & Resorts, L.P. (and its consolidated subsidiaries), in cases where it is important to distinguish between Host and Host LP. Until April 17, 2006, Host was known as Host Marriott Corporation and Host LP was known as Host Marriott, LP. In connection with our acquisition of a portfolio of properties from Starwood Hotels & Resorts Worldwide, Inc., on April 17, 2006, we changed our names to Host Hotels & Resorts, Inc. and Host Hotels & Resorts, LP, respectively.

As of February 23, 2007, our lodging portfolio consisted of 123 luxury and upper upscale hotels containing approximately 65,600 rooms. Our portfolio is geographically diverse with hotels in most of the major metropolitan areas in 26 states, Washington, D.C., Toronto and Calgary, Canada, Mexico City, Mexico and Santiago, Chile. Our locations primarily include central business districts of major cities, airport areas and resort/convention destinations.

The address of our principal executive office is 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland, 20817. Our phone number is 240-744-1000.

Where to Find Additional Information

We maintain an internet website at: www.hosthotels.com. Through our website, we make available free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

Additionally, at the Investor Information section of our website, we have a Corporate Governance page that includes, among other things, copies of our Bylaws, our Code of Business Conduct and Conflicts of Interest Policy for directors, our Code of Business Conduct and Ethics for employees, our Corporate Governance Guidelines and the charters for each standing committee of our Board of Directors, which currently are: the Audit Committee, the Compensation Policy Committee and the Nominating and Corporate Governance Committee. Copies of our Bylaws and these charters and policies are also available in print to stockholders upon request.

The Lodging Industry

Overview

The lodging industry in the United States consists of private and public entities that operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants:

Owners own the hotel and typically enter into an agreement for an independent third party to manage the hotel. These properties may be branded and operated under the manager s brand or branded under a franchise agreement and operated by the franchisee or by an independent hotel manager. The properties may also be operated as an independent hotel (unaffiliated with any brand) by an independent hotel manager.

Owner/Managers own the hotel and operate the property with their own management team. These properties may be branded under a franchise agreement, operated as an independent hotel (unaffiliated with any brand) or operated under the owner s brand. REITs are restricted from operating and managing hotels under applicable REIT laws.

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- Franchisors own a brand or brands and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with brand recognition, marketing support and centralized reservation systems.

- Franchisor/Manager own a brand or brands and also operate hotels on behalf of the hotel owner or franchisee.

- Manager operate hotels on behalf of the hotel owner, but do not, themselves, own a brand. The hotels may be operated under a franchise agreement or as an independent hotel (unaffiliated with any brand).

The hotel manager is responsible for the day-to-day operation of the hotels, including the employment of hotel staff, the determination of room rates, the development of sales and marketing plans, the preparation of operating and capital expenditure budgets and the preparation of financial reports for the owner. They typically receive fees based on the revenues and profitability of the hotel.

Our industry is influenced by the cyclical relationship between the supply of and demand for hotel rooms. Lodging demand growth typically is related to the vitality of the overall economy in addition to local market factors that stimulate travel to specific destinations. Extended periods of strong demand growth tend to encourage new development. The rate of supply growth may be influenced by a number of factors, including availability of capital, interest rates, construction costs and unique market considerations. The relatively long lead-time required to complete the development of hotels increases the volatility of the cyclical behavior of the lodging industry. At different points in the cycle, demand and supply may increase or decrease in a dissimilar manner such that demand may increase when there is no new supply or supply may grow when demand is declining. Over the last three years, general economic growth has gradually led to accelerating demand. During this period the growth of demand has outpaced the growth in supply, particularly in the markets that we target. 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 or expanding existing luxury and upper upscale hotels. The recent strong industry performance has begun to increase the pace of new hotel construction from its cyclical lows; however, the majority of new projects scheduled for completion in the near-term are concentrated in the mid-scale and economy segments and outside of major urban markets. Supply growth in the industry has also been restrained by construction cost increases.

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Revenue per available room (RevPAR) is a measure of performance commonly used in the hotel industry to evaluate hotel operations. RevPAR represents the product of the average daily room rate charged and the average daily occupancy achieved but excluding other revenue generated by a hotel property, such as from food and beverage or parking, telephone or other guest services. The charts below detail the supply, demand and RevPAR growth for the U.S. lodging industry and for the luxury and upper upscale segment for 2002 to 2006 based on data provided by Smith Travel Research.

U.S. Lodging Industry Supply, Demand and RevPAR Growth

Luxury and Upper Upscale Supply, Demand and RevPAR growth

Business Strategy

Our primary business objective is to provide superior total returns to our stockholders through a combination of appreciation in asset values and growth in earnings and dividends. To achieve this objective we seek to:

- maximize the value of our existing portfolio through aggressive asset management, which includes working with the managers of our hotels to continue to increase revenues while minimizing operating costs, completing selective capital improvements designed to increase profitability and exploring opportunities to utilize our properties for more valuable or profitable purposes;

- acquire luxury and upper upscale hotels that are generally located in urban and resort/convention destinations and are operated by leading management companies; and

- dispose of non-core assets, including older hotels that are at a competitive risk or hotels that are located in slower-growth markets.

Asset Management. We are the largest REIT owner of luxury and upper upscale properties in the U.S. and our hotels are affiliated with many of the top operators and brands in the industry. The size and composition of our portfolio and our experience with multiple brands allow us to benchmark similar hotels and identify best practices, value enhancement opportunities and efficiencies that can be communicated to our managers. We continue to evaluate key performance indicators to ensure an appropriate level of assistance is provided to our managers to maximize opportunities at each asset. Areas of focus include enhancing revenue management for rooms, food and beverage and other services, reducing operating costs and identifying operating efficiencies, all of which improve the long-term profitability of the hotel.

To maximize the value of our portfolio and to maintain our high standards for product quality, as well as those of our managers, our asset management and design and construction departments review potential capital improvements to ensure that each of our properties is in superior physical condition, highly competitive in the market and consistent with brand standards on a continuing basis. Our capital expenditures generally fall into three broad categories, renewal and replacement expenditures, repositioning/return on investment (or ROI) projects and value enhancement projects.

Renewal and replacement capital expenditures. We work closely with our managers to ensure that renewal and replacement expenditures are spent efficiently to maximize the profitability of the hotel. Typically, room refurbishments occur at intervals of approximately seven years, but the timing may vary based on the type of property and equipment being replaced. These refurbishments generally are divided into the following types: soft goods, hard goods and infrastructure. Soft goods include items such as carpeting, bed spreads, curtains and wall vinyl and may require more frequent updates to maintain brand quality standards. Hard goods include items such as dressers, desks, couches, restaurant and meeting room chairs and tables and are generally not replaced as frequently. Infrastructure includes the physical plant of the hotel, including the roof, elevators, façade and fire systems, which are regularly maintained and then replaced at the end of their useful lives.

ROI/repositioning capital expenditures. In addition, we pursue opportunities to enhance asset value by completing selective capital improvements outside the scope of the typical renewal and replacement capital expenditures. These projects include, for example, significant repositionings of guest rooms, lobbies or food and beverage platforms and expanding ballroom, spa or conference facilities. In certain instances, these ROI/repositioning projects have coincided with the timing of regular maintenance cycles at the properties where we have used the opportunity to significantly improve and upgrade the hotel. These projects are also designed to take advantage of changing market conditions and the superior location of our properties.

Value enhancement projects. We also will continue to seek opportunities to enhance the value of our portfolio by identifying and executing strategies that maximize the highest and best use of all aspects of our properties, such as the development of timeshare or condominium units on excess land. For example, we are pursuing the development of approximately 130 timeshare units on a beachfront parking lot at the Hyatt Regency Maui Resort and Spa. These projects typically require approvals from state or local regulatory agencies or other third parties. For this reason, it can be difficult to predict the timing of these projects or whether we will be able to achieve our value enhancement objectives. Additionally, we will seek to capitalize on our value enhancement strategies through the sale of certain hotels when premium pricing can be obtained, such as the 2006 sales of our Fort Lauderdale Marina Marriott for $146 million and the Swissôtel The Drake, New York for $440 million.

Acquisitions. Our acquisition strategy focuses on luxury and upper upscale hotels both domestically and internationally. We continue to believe there will be opportunities to acquire these hotels at attractive multiples of cash flow and at discounts to replacement cost. Our acquisition strategy continues to focus on:

- properties with locations in markets with high barriers to entry for prospective competitors;
- properties operated under premium brand names;
- larger hotels that are consistent with our portfolio objectives and that may require investment on a scale that limits the number of potential buyers;
- properties that further diversify our portfolio, both domestically and internationally; and
- acquisitions through various structures, including transactions involving portfolios, single assets and joint ventures.

We completed the acquisition of a portfolio of 25 domestic and three international properties from Starwood Hotels & Resorts Worldwide, Inc., (Starwood) on April 10, 2006 for $3.1 billion (one of the properties was contributed by us to the European joint venture described below on May 2, 2006). Additionally, since November 2003, we have purchased six properties in single-asset transactions, the most recent being the September 2006 acquisition of the 732-room Westin Kierland Resort & Spa for approximately $393 million. We will also purchase properties through various ownership structures, including joint ventures, and, in 2006, we formed a joint venture in Europe (the European Joint Venture), which owns seven hotels: the 483-room Hotel Arts Barcelona (acquired in August 2006 for approximately 417 million ($537 million)), five hotels acquired in May and June 2006 as part of the Starwood acquisition and the contribution of one hotel that we acquired from Starwood.

Dispositions. Since January 2004, we have taken advantage of market conditions to sell 26 hotels at favorable prices, including five properties sold in 2007. Proceeds from dispositions have been, or will be, used to repay debt, fund acquisitions, fund ROI and repositioning projects, or for general corporate purposes. With the exception of the sale of two properties discussed below, the properties that we disposed of have been non-core hotels that are located in secondary and tertiary markets where we believe the potential for growth is lower. We have also disposed of core assets when we have the opportunity to capitalize on value enhancement strategies and apply the proceeds to other business objectives such as the 2006 sales of our Fort Lauderdale Marina Marriott and the Swissôtel The Drake, New York.

Operating Structure

Host is a self-managed and self-administered real estate investment trust (REIT). Host operates through an umbrella partnership REIT (UPREIT) structure in which substantially all of its properties and assets are held by Host LP, of which Host is the sole general partner and holds approximately 96.5% of the outstanding partnership interests. The remaining 3.5% of the partnership interests are held by approximately 2,100 recordholders. Each unit of the partnership interests in Host LP owned by holders other than Host are redeemable at the option of the holder for an amount of cash equal to the market value of one share of Host common stock. Host has the right, however, to acquire any Host LP partnership interest offered for redemption directly from the holder in exchange for one share of Host common stock, instead of Host LP redeeming such partnership interest for cash.

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Our operating structure is as follows:

Host was formed in 1998 as a Maryland corporation in connection with our reorganization to qualify as a REIT and, at that time, we reorganized our business and contributed our hotels and certain other assets to Host LP and its subsidiaries. As a result of this reorganization, Host became the sole general partner of Host LP. For each share of Host common stock, Host LP has issued one unit of partnership interest in Host LP, or OP unit, to Host. When distinguishing between Host and Host LP, the primary difference is the approximately 3.5% of the partnership interests of Host LP not held by us as of February 23, 2007.

As a REIT, certain tax laws limit the amount of non-qualifying income that Host can earn, including income derived directly from the operation of hotels. As a result, we lease substantially all of our properties to certain of our subsidiaries designated as taxable REIT subsidiaries (TRS) for federal income tax purposes or to third party lessees. The lessees and our taxable REIT subsidiaries enter into agreements with third parties to manage the operations of the hotels. TRS subsidiaries may also hold other assets that engage in other activities that produce non-qualifying income such as the development of timeshare or condominium units, subject to certain restrictions. The difference between the hotel s net operating cash flow and the aggregate rents paid to Host LP is retained by the TRS as taxable income. Accordingly, the net effect of the TRS leases is that, while REITs are generally exempt from federal income tax to the extent that they meet specific distribution requirements, among other REIT requirements, a portion of the net operating cash flow from our properties is subject to federal, state and, if applicable, foreign income tax.

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Our Hotel Properties

Overview. Our lodging portfolio primarily consists of 123 luxury and upper upscale hotels containing approximately 65,600 rooms as of February 23, 2007. It is geographically diverse, with hotels in most of the major metropolitan areas in 26 states, Washington, D.C., Toronto and Calgary, Canada, Mexico City, Mexico and Santiago, Chile. Our locations include central business districts of major cities, near airports and resort/convention destinations that, because of their locations, typically benefit from barriers to entry by competitors. Forty-five of our hotels, which represent over 60% of our hotel revenues, have more than 500 rooms. Our properties typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, exercise facilities and/or spas, gift shops and parking facilities, the combination of which enable them to serve business, leisure and group travelers. The average age of our properties is 24 years, although most of the properties have benefited from substantial renovations or major additions, as well as regularly scheduled renewal and replacement and other capital improvements.

The following chart details our hotel portfolio by brand as of February 23, 2007:

Brand	Number of Hotels	Rooms	Percentage of Revenues(1)
Marriott	72	40,505	56%
Sheraton	12	7,334	10
Westin	11	5,698	9
Ritz-Carlton	9	3,369	9
Hyatt	7	4,352	8
W	2	1,114	2
Hilton/Embassy Suites	2	678	1
Four Seasons	2	608	2
Fairmont	1	450	2
Luxury Collection/St. Regis	2	371	
Delta	1	374	
Swissôtel	1	632	1
Other	1	89	
	123	65,574	100%

(1) Percentage of revenues is based on revenues from our 2007 property budgets.

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Hotel Properties. The following table sets forth the location and number of rooms of our 123 hotels as of February 23, 2007. Each hotel is operated under the brand name indicated.

Location	Rooms
Arizona	
Sheraton Tucson	216
Scottsdale Marriott Suites Old Town	251
Scottsdale Marriott at McDowell Mountains	270
The Ritz-Carlton, Phoenix	281
The Westin Kierland Resort & Spa	732
California	
Coronado Island Marriott Resort(1)	300
Costa Mesa Marriott Suites	253
Desert Springs, a JW Marriott Resort, Palm Desert	884
Hyatt Regency, San Francisco Airport	789
Manhattan Beach Marriott(1)	385
Marina del Rey Marriott(1)	370
Newport Beach Marriott Hotel & Spa	532
Newport Beach Marriott Bayview	254
Host Airport Hotel Sacramento(1)	89
San Diego Marriott Hotel and Marina(1)(2)	1,362
San Diego Marriott Mission Valley	350
San Francisco Airport Marriott	685
San Francisco Marriott Fisherman s Wharf	285
San Francisco Marriott(1)	1,498
San Ramon Marriott(1)	368
Santa Clara Marriott(1)	755
Sheraton San Diego Hotel & Marina(1)	1,044
The Ritz-Carlton, Marina del Rey(1)	304
The Ritz-Carlton, San Francisco	336
The Westin Los Angeles(1)	740
The Westin Mission Hills	512
The Westin South Coast Plaza(1)	390
Colorado	
Denver Marriott Tech Center	628
Denver Marriott West(1)	305
Four Points by Sheraton Denver Southeast(1)	475
The Westin Tabor Center(1)	430
Connecticut	
Hartford Marriott Rocky Hill(1)	251
Sheraton Stamford	448
Florida	
Sheraton Suites Tampa	259
Harbor Beach Marriott Resort and Spa(1)(2)	637
Location	**Rooms**
Florida (continued)	
Hilton Singer Island Oceanfront Resort	223
Miami Airport Marriott(1)	772
Miami Marriott Biscayne Bay(1)	601
Orlando World Center Marriott Resort and Convention Center	2,000
Tampa Airport Marriott(1)	296
Tampa Marriott Waterside Hotel and Marina	717
The Ritz-Carlton, Amelia Island	444
The Ritz-Carlton, Naples	450
The Ritz-Carlton Golf Resort, Naples	295
Georgia	

Atlanta Marriott Marquis	1,663
Atlanta Marriott Suites Midtown(1)	254
Atlanta Marriott Perimeter Center	400
Four Seasons Hotel, Atlanta	244
Grand Hyatt Atlanta in Buckhead	438
JW Marriott Hotel Buckhead	371
The Ritz-Carlton, Buckhead	553
The Westin Buckhead Atlanta	365
Hawaii	
Hyatt Regency Maui Resort and Spa	806
The Fairmont Kea Lani, Maui	450
Illinois	
Chicago Marriott Suites Downers Grove	254
Courtyard Chicago Downtown	337
Chicago Marriott O Hare	681
Chicago Marriott Suites O Hare	256
Embassy Suites Chicago Hotel, Downtown/Lakefront	455
Swissôtel, Chicago	632
Indiana	
Sheraton Indianapolis	560
South Bend Marriott	298
The Westin Indianapolis	573
Louisiana	
New Orleans Marriott	1,290
Maryland	
Gaithersburg Marriott Washingtonian Center	284
Massachusetts	
Boston Marriott Copley Place	1,139
Boston Marriott Newton	430
Hyatt Regency Boston	498
Hyatt Regency Cambridge, Overlooking Boston	469
Sheraton Boston	1,216
Sheraton Braintree	374

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Location	Rooms
Sheraton Needham	247
The Westin Waltham-Boston	346
Michigan	
The Ritz-Carlton, Dearborn	308
Minnesota	
Minneapolis Marriott City Center(1)	583
Minneapolis Marriott Southwest	321
Missouri	
Kansas City Airport Marriott(1)	382
New Hampshire	
Courtyard Nashua	245
New Jersey	
Hanover Marriott	353
Newark Liberty International Airport Marriott(1)	591
Park Ridge Marriott(1)	289
Sheraton Parsippany	370
New York	
New York Marriott Financial Center	498
New York Marriott Marquis Times Square(1)	1,944
Sheraton New York Hotel and Towers	1,746
W New York	688
North Carolina	
Greensboro-Highpoint Marriott Airport(1)	299
Raleigh Marriott Crabtree Valley	375
Ohio	
Dayton Marriott	399
The Westin Cincinnati(1)	456
Oregon	
Portland Marriott Downtown Waterfront	503
Pennsylvania	
Four Seasons Hotel, Philadelphia	364
Philadelphia Airport Marriott(1)	419
Philadelphia Marriott Downtown(2)	1,408
Tennessee	
Memphis Marriott Downtown	600
Texas	
Dallas/Addison Marriott Quorum by the Galleria(1)	548
Houston Airport Marriott(1)	565

Location	Rooms
Houston Marriott Medical Center(1)	386
JW Marriott Hotel on Westheimer by the Galleria	514
Texas (continued)	
San Antonio Marriott Rivercenter(1)	1,001
San Antonio Marriott Riverwalk(1)	512
St. Regis Hotel, Houston	232
Virginia	
Hyatt Regency Reston	518
Key Bridge Marriott(1)	582
Residence Inn Arlington Pentagon City	299
The Ritz-Carlton, Tysons Corner(1)	398
Washington Dulles Airport Marriott(1)	368
Washington Dulles Marriott Suites	253
Westfields Marriott Washington Dulles	336
Washington	
Seattle Marriott SeaTac Airport	459
The Westin Seattle	891
W Seattle	426

Washington, D.C.	
Hyatt Regency Washington on Capitol Hill	834
JW Marriott Hotel, Washington, D.C.	772
Marriott at Metro Center	456
The Westin Grand	263
Canada	
Calgary Marriott	384
Toronto Delta Meadowvale Resort and Conference Center	374
Toronto Marriott Airport(2)	424
Toronto Marriott Downtown Eaton Center(1)	459
Chile	
San Cristobal Tower, a Luxury Collection Hotel, Santiago	139
Sheraton Santiago Convention Center	379
Mexico	
JW Marriott Hotel, Mexico City(2)	312
Total	65,574

(1) The land on which this hotel is built is leased from a third party under one or more long-term lease agreements.
(2) These properties are not wholly owned.

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Competition

The lodging industry is highly competitive. Competition is often specific to individual markets and is based on a number of factors, including location, brand, guest facilities and amenities, level of service, room rates and the quality of accommodations. The lodging industry is generally viewed as consisting of six different groupings, each of which caters to a discreet set of customer taste and needs: luxury, upper upscale, upscale, midscale (with and without food and beverage service) and economy. Most of our hotels operate in urban and resort markets either as luxury properties, under such brand names as Ritz-Carlton®, Fairmont®, Four Seasons®, The Luxury Collection®, St. Regis® and W® or as upper upscale properties, under such brand names as Marriott®, Hyatt®, Westin®, Hilton®, Sheraton®, Swissôtel® and Delta®. [(1)] Our hotels compete with other hotels operated under brands in these groupings, as well as with hotels operated under upscale or other lower-tier groupings in certain locations.

We believe our properties enjoy competitive advantages associated with the hotel brands under which they operate. The international marketing programs and reservation systems of these brands combined with the strong management systems and expertise they provide, should enable our properties to perform favorably in terms of both occupancy and room rates. In addition, repeat guest business is enhanced by guest reward or guest recognition programs offered by most of these brands. Nevertheless, many management contracts for our hotels do not prohibit our managers from converting, franchising or developing other hotel properties in our markets. As a result, our hotels in a given market often compete with other hotels that our managers may own, invest in, manage or franchise.

Seasonality

Our hotel sales traditionally have experienced moderate seasonality, which varies based on the individual hotel property and the region. Additionally, hotel revenues in the fourth quarter typically reflect 16 weeks of results compared to 12 weeks for each of the first three quarters of the fiscal year for our Marriott-managed hotels. For our non-Marriott managed hotels, the first quarter includes two months of operations, the second and third quarters include three months of operations and the fourth quarter includes four months of operations. See Management s Discussion and Analysis of Results of Operations and Financial Condition Reporting Periods for more information on our fiscal calendar. Hotel sales have historically averaged approximately 21%, 25%, 21% and 33% for the first, second, third and fourth quarters, respectively, although results for 2006 have been significantly affected by the purchase of the Starwood portfolio in April 2006.

Other Real Estate Investments

In addition to our hotels, we have minority partner interests in other real estate investments. We manage these investments and conduct business through a combination of general and limited partnership and limited liability company interests. All of the debt of these entities is non-recourse to us and our subsidiaries and the entities are not consolidated in our financial statements.

European Joint Venture

On March 24, 2006, we entered into an Agreement of Limited Partnership, forming a joint venture to acquire hotels in Europe with Stichting Pensioenfonds ABP, the Dutch pension fund (ABP), and Jasmine Hotels Pte Ltd, an affiliate of GIC Real Estate Pte Ltd (GIC RE), the real estate investment company of the Government of Singapore Investment Corporation Pte Ltd (GIC). Host LP is a limited partner (together with ABP and GIC RE, the Limited Partners) and serves as the general partner. The percentage interests of the parties are 19.9% for ABP, 48% for GIC RE and 32.1% for Host LP (including its limited and general partner

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(1) This annual report contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees, has or will have any responsibility or liability for any information contained in this annual report.

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interests). The initial term of the European Joint Venture is ten years subject to two one-year extensions with partner approval. Due to the ownership structure of the European Joint Venture and the non-Host limited partners rights to cause the dissolution and liquidation of the European Joint Venture at any time, it is not consolidated in our financial statements. As of December 31, 2006, the European Joint Venture owns the following seven hotels in four countries: