

HOST HOTELS & RESORTS, INC.

Form 10-Q

November 05, 2018

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 September 30, 2018

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)

Maryland (Host Hotels & Resorts, Inc.) 53-008595

Delaware (Host Hotels & Resorts, L.P.) 52-2095412

(State or Other Jurisdiction of (I.R.S. Employer

Edgar Filing: HOST HOTELS & RESORTS, INC. - Form 10-Q

Incorporation or Organization)	Identification No.)
6903 Rockledge Drive, Suite 1500	20817
Bethesda, Maryland	(Zip Code)

(Address of Principal Executive Offices)

(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	No
Host Hotels & Resorts, L.P.	Yes	No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Host Hotels & Resorts, Inc.	Yes	No
Host Hotels & Resorts, L.P.	Yes	No

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

Host Hotels & Resorts, Inc.	
Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

Host Hotels & Resorts, L.P.	
Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 1, 2018 there were 742,062,448 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 of which it holds approximately 99% 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 the combination into a single report of 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 for Host L.P.). 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, 2017 under the heading “Explanatory Note.”

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

INDEX

PART I. FINANCIAL INFORMATION

	Page No.
Item 1. Financial Statements for Host Hotels & Resorts, Inc.:	
<u>Condensed Consolidated Balance Sheets - September 30, 2018 (unaudited) and December 31, 2017</u>	1
<u>Condensed Consolidated Statements of Operations (unaudited) - Quarter and Year-to-date ended September 30, 2018 and 2017</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) - Quarter and Year-to-date ended September 30, 2018 and 2017</u>	3
<u>Condensed Consolidated Statements of Cash Flows (unaudited) - Year-to-date ended September 30, 2018 and 2017</u>	4
Financial Statements for Host Hotels & Resorts, L.P.:	
<u>Condensed Consolidated Balance Sheets - September 30, 2018 (unaudited) and December 31, 2017</u>	6
<u>Condensed Consolidated Statements of Operations (unaudited) - Quarter and Year-to-date ended September 30, 2018 and 2017</u>	7
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) - Quarter and Year-to-date ended September 30, 2018 and 2017</u>	8
<u>Condensed Consolidated Statements of Cash Flows (unaudited) - Year-to-date ended September 30, 2018 and 2017</u>	9
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	43
 PART II. OTHER INFORMATION	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2018 and December 31, 2017

(in millions, except share and per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Property and equipment, net	\$ 9,775	\$ 9,692
Assets held for sale	274	250
Due from managers	141	79
Advances to and investments in affiliates	320	327
Furniture, fixtures and equipment replacement fund	205	195
Other	171	237
Cash and cash equivalents	1,269	913
Total assets	\$ 12,155	\$ 11,693
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes	\$ 2,781	\$ 2,778
Credit facility, including term loans of \$997 and \$996, respectively	1,292	1,170
Other debt	6	6
Total debt	4,079	3,954
Accounts payable and accrued expenses	265	283
Other	246	287
Total liabilities	4,590	4,524
Non-controlling interests - Host Hotels & Resorts, L.P.	170	167
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized, 740 million shares and 739.1 million shares issued and outstanding, respectively		
	7	7
Additional paid-in capital	8,108	8,097
Accumulated other comprehensive loss	(65)	(60)
Deficit	(728)	(1,071)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,322	6,973
Non-controlling interests—other consolidated partnerships	73	29
Total equity	7,395	7,002
Total liabilities, non-controlling interests and equity	\$ 12,155	\$ 11,693

See notes to condensed consolidated financial statements.

1

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUES				
Rooms	\$874	\$860	\$2,691	\$2,643
Food and beverage	337	314	1,199	1,152
Other	88	80	273	248
Total revenues	1,299	1,254	4,163	4,043
EXPENSES				
Rooms	234	227	696	676
Food and beverage	254	242	822	794
Other departmental and support expenses	321	309	972	952
Management fees	56	53	183	178
Other property-level expenses	90	97	287	294
Depreciation and amortization	412	176	779	534
Corporate and other expenses	24	24	82	79
Gain on insurance and business interruption settlements	—	(1)	—	(6)
Total operating costs and expenses	1,391	1,127	3,821	3,501
OPERATING PROFIT (LOSS)	(92)	127	342	542
Interest income	3	2	8	4
Interest expense	(45)	(43)	(134)	(125)
Gain on sale of assets	547	59	667	105
Gain (loss) on foreign currency transactions and derivatives	1	(2)	—	(4)
Equity in earnings of affiliates	6	4	25	19
INCOME BEFORE INCOME TAXES	420	147	908	541
Provision for income taxes	(42)	(42)	(63)	(63)
NET INCOME	378	105	845	478
Less: Net income attributable to non-controlling interests	(56)	(1)	(61)	(6)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$322	\$104	\$784	\$472
Basic earnings per common share	\$.43	\$.14	\$ 1.06	\$.64
Diluted earnings per common share	\$.43	\$.14	\$ 1.06	\$.64

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30, 2018	2017	September 30, 2018	2017
NET INCOME	\$378	\$105	\$845	\$478
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income				
(loss) of unconsolidated affiliates	(2)	11	(10)	26
Change in fair value of derivative instruments	—	(4)	—	(14)
Amounts reclassified from other comprehensive income (loss)	5	13	5	14
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	3	20	(5)	26
COMPREHENSIVE INCOME	381	125	840	504
Less: Comprehensive income attributable to non-controlling				
interests	(56)	(1)	(61)	(7)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST				
HOTELS & RESORTS, INC.	\$325	\$124	\$779	\$497

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions)

	Year-to-date ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$845	\$478
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	779	534
Amortization of finance costs, discounts and premiums, net	5	5
Stock compensation expense	11	8
Deferred income taxes	—	37
Gain on sale of assets	(667)	(105)
Loss on foreign currency transactions and derivatives	—	4
Gain on property insurance settlement	—	(1)
Equity in earnings of affiliates	(25)	(19)
Change in due from managers	(55)	(57)
Distributions from investments in affiliates	24	14
Changes in other assets	(7)	(17)
Changes in other liabilities	31	(14)
Net cash provided by operating activities	941	867
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	1,130	472
Return of investments in affiliates	1	4
Advances to and investments in affiliates	(4)	(1)
Acquisitions	(1,025)	(467)
Capital expenditures:		
Renewals and replacements	(214)	(155)
Return on investment	(106)	(53)
Property insurance proceeds	8	—
Net cash used in investing activities	(210)	(200)
FINANCING ACTIVITIES		
Financing costs	—	(9)
Issuances of debt	—	398
Draws on credit facility	360	340
Repayment of credit facility	(225)	(379)
Mortgage debt and other prepayments and scheduled maturities	—	(69)
Dividends on common stock	(481)	(480)

Edgar Filing: HOST HOTELS & RESORTS, INC. - Form 10-Q

Distributions and payments to non-controlling interests	(6)	(47)
Other financing activities	(9)	2
Net cash used in financing activities	(361)	(244)
Effects of exchange rate changes on cash held	(4)	5
INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	366	428
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING		
OF PERIOD	1,109	544
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$1,475	\$972

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Year-to-date ended September 30, 2018 and 2017

(unaudited)

Supplemental disclosure of cash flow information (in millions):

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet to the amount shown in the statements of cash flows:

	September 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 1,269	\$ 789
Restricted cash (included in other assets)	1	—
Cash included in furniture, fixtures and equipment replacement fund	205	183
Total cash and cash equivalents and restricted cash shown in the statements of cash flows	\$ 1,475	\$ 972

The following table presents cash paid during the year-to-date for the following:

	Year-to-date ended September 30, 2018 2017	
Total interest paid	\$ 122	\$ 108
Income taxes paid	\$ 31	\$ 38

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2018 and December 31, 2017

(in millions)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Property and equipment, net	\$ 9,775	\$ 9,692
Assets held for sale	274	250
Due from managers	141	79
Advances to and investments in affiliates	320	327
Furniture, fixtures and equipment replacement fund	205	195
Other	171	237
Cash and cash equivalents	1,269	913
Total assets	\$ 12,155	\$ 11,693
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes	\$ 2,781	\$ 2,778
Credit facility, including term loans of \$997 and \$996, respectively	1,292	1,170
Other debt	6	6
Total debt	4,079	3,954
Accounts payable and accrued expenses	265	283
Other	246	287
Total liabilities	4,590	4,524
Limited partnership interests of third parties	170	167
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,386	7,032
Accumulated other comprehensive loss	(65)	(60)
Total Host Hotels & Resorts, L.P. capital	7,322	6,973
Non-controlling interests—consolidated partnerships	73	29
Total capital	7,395	7,002
Total liabilities, limited partnership interest of third parties and capital	\$ 12,155	\$ 11,693

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUES				
Rooms	\$874	\$860	\$2,691	\$2,643
Food and beverage	337	314	1,199	1,152
Other	88	80	273	248
Total revenues	1,299	1,254	4,163	4,043
EXPENSES				
Rooms	234	227	696	676
Food and beverage	254	242	822	794
Other departmental and support expenses	321	309	972	952
Management fees	56	53	183	178
Other property-level expenses	90	97	287	294
Depreciation and amortization	412	176	779	534
Corporate and other expenses	24	24	82	79
Gain on insurance and business interruption settlements	—	(1)	—	(6)
Total operating costs and expenses	1,391	1,127	3,821	3,501
OPERATING PROFIT (LOSS)	(92)	127	342	542
Interest income	3	2	8	4
Interest expense	(45)	(43)	(134)	(125)
Gain on sale of assets	547	59	667	105
Gain (loss) on foreign currency transactions and derivatives	1	(2)	—	(4)
Equity in earnings of affiliates	6	4	25	19
INCOME BEFORE INCOME TAXES	420	147	908	541
Provision for income taxes	(42)	(42)	(63)	(63)
NET INCOME	378	105	845	478
Less: Net (income) loss attributable to non-controlling interests	(53)	1	(53)	—
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$325	\$106	\$792	\$478
Basic earnings per common unit	\$.44	\$.14	\$1.08	\$.65
Diluted earnings per common unit	\$.44	\$.14	\$1.08	\$.65

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30, 2018	2017	September 30, 2018	2017
NET INCOME	\$378	\$105	\$845	\$478
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income				
(loss) of unconsolidated affiliates	(2)	11	(10)	26
Change in fair value of derivative instruments	—	(4)	—	(14)
Amounts reclassified from other comprehensive income (loss)	5	13	5	14
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	3	20	(5)	26
COMPREHENSIVE INCOME	381	125	840	504
Less: Comprehensive (income) loss attributable to non-controlling interests	(53)	1	(53)	(1)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$328	\$126	\$787	\$503

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2018 and 2017

(unaudited, in millions)

	Year-to-date ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$845	\$478
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	779	534
Amortization of finance costs, discounts and premiums, net	5	5
Stock compensation expense	11	8
Deferred income taxes	—	37
Gain on sale of assets	(667)	(105)
Loss on foreign currency transactions and derivatives	—	4
Gain on property insurance settlement	—	(1)
Equity in earnings of affiliates	(25)	(19)
Change in due from managers	(55)	(57)
Distributions from investments in affiliates	24	14
Changes in other assets	(7)	(17)
Changes in other liabilities	31	(14)
Net cash provided by operating activities	941	867
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	1,130	472
Return of investments in affiliates	1	4
Advances to and investments in affiliates	(4)	(1)
Acquisitions	(1,025)	(467)
Capital expenditures:		
Renewals and replacements	(214)	(155)
Return on investment	(106)	(53)
Property insurance proceeds	8	—
Net cash used in investing activities	(210)	(200)
FINANCING ACTIVITIES		
Financing costs	—	(9)
Issuances of debt	—	398
Draws on credit facility	360	340
Repayment of credit facility	(225)	(379)
Mortgage debt and other prepayments and scheduled maturities	—	(69)
Distributions on common OP units	(486)	(486)

Edgar Filing: HOST HOTELS & RESORTS, INC. - Form 10-Q

Distributions and payments to non-controlling interests	(1)	(41)
Other financing activities	(9)	2
Net cash used in financing activities	(361)	(244)
Effects of exchange rate changes on cash held	(4)	5
INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	366	428
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING		
OF PERIOD	1,109	544
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$1,475	\$972

See notes to condensed consolidated financial statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Year-to-date ended September 30, 2018 and 2017

(unaudited)

Supplemental disclosure of cash flow information (in millions):

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet to the amount shown in the statements of cash flows:

	September 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 1,269	\$ 789
Restricted cash (included in other assets)	1	—
Cash included in furniture, fixtures and equipment replacement fund	205	183
Total cash and cash equivalents and restricted cash shown in the statements of cash flows	\$ 1,475	\$ 972

The following table presents cash paid during the year-to-date for the following:

	Year-to-date ended September 30,	
	2018	2017
Total interest paid	\$ 122	\$ 108
Income taxes paid	\$ 31	\$ 38

See notes to condensed consolidated financial 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 these unaudited 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.” specifically to refer to Host Hotels & Resorts, Inc. and the term “Host L.P.” specifically to refer to Host Hotels & Resorts, L.P. in cases where it is important to distinguish between Host Inc. and Host L.P. As of September 30, 2018, Host Inc. holds approximately 99% of Host L.P.’s OP units.

Consolidated Portfolio

As of September 30, 2018, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

	Hotels
United States	88
Brazil	3
Canada	2
Total	93

Joint Ventures

We own an approximate 33% non-controlling interest in a joint venture in Europe (“Euro JV”) that owns 11 hotels in two separate funds in seven countries. We also own non-controlling interests in an additional six joint ventures that own ten hotels.

Omg

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 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 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, 2017.

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 September 30, 2018, and the results of our operations for the quarter and year-to-date periods ended September 30, 2018 and 2017, respectively, and cash flows for the year-to-date periods ended September 30, 2018 and 2017, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal variations.

Three of our partnerships are considered variable interest entities (VIEs) as the general partner maintains control over the decisions that most significantly impact the partnerships. These VIEs include the operating partnership, Host L.P., which is consolidated by Host Inc., of which Host Inc. is the sole general partner and holds approximately 99% of its partnership interests; the consolidated partnership that owns the Houston Airport Marriott at George Bush Intercontinental; and the unconsolidated partnership that owns the Philadelphia Marriott Downtown. Host Inc.'s sole

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

significant asset is its investment in Host L.P. and, consequently, substantially all of Host Inc.'s assets and liabilities consists of the assets and liabilities of Host L.P. All of Host Inc.'s debt is an obligation of Host L.P. and may be settled only with assets of Host L.P.

Reclassifications

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

New Accounting Standards

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which affects aspects of accounting for lease agreements. Under the new standard, all leases, including operating leases, will require recognition of the lease assets and lease liabilities by lessees on the balance sheet. However, the effect on the statement of operations and the statement of cash flows largely is unchanged. The standard is effective for fiscal years beginning after December 15, 2018. The current standard requires adoption using a modified retrospective approach, with the option of restatement of the comparative periods presented in the year of adoption or applying the new standard only in the year of adoption with a cumulative-effect adjustment in the period of adoption. The primary impact of the new standard will be to the treatment of our 25 ground leases, which represent approximately 85% of our annual operating lease payments. We believe that application of this standard will result in us recording a right of use asset and the related lease liability of between \$500 million and \$600 million for the ground leases, although changes in discount rates, ground lease terms or other variables may have a significant effect on the calculation of this recorded amount. As noted above, we expect that the adoption of this standard will have minimal impact on our income statement. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. We also expect to elect all of the new standard's available transition practical expedients. Consequently, financial information will not be updated and disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

Business Combinations. We adopted ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business on January 1, 2018. The standard adopts a two-step approach wherein, if substantially all of the fair value of the gross assets acquired is concentrated in a single (group of similar) identifiable asset(s), then the transaction will be considered an asset purchase. We anticipate that most of our future hotel purchases will be considered asset purchases as opposed to business combinations, although this determination will be made on a transaction-by-transaction basis. This standard was adopted on a prospective basis and, therefore, it did not affect the accounting for any of our previous transactions.

Revenue Recognition. We adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018. The standard sets forth steps to determine the timing and amount of revenue to be recognized to depict the transfer of goods or services in an amount that reflects the consideration that an entity expects in exchange. We also adopted ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which provides further guidance on accounting for the derecognition and partial sales of a non-financial asset. This standard may allow for earlier gain recognition for certain sale transactions pursuant to which we have continuing involvement with the asset that was sold. We adopted these standards using a modified retrospective approach with a cumulative effect recognized in our equity balance on the date of adoption and no restatements of prior period amounts. When applying the new standard for the cumulative effect, we elected to apply the new standard only to contracts that were not considered completed as of the date of adoption.

Transition adjustment. As a result of the adoption of this standard on January 1, 2018, total liabilities were reduced by \$4.5 million, and total equity of Host Inc. stockholders and total Host L.P. partner capital increased by \$4.5 million. This adjustment is related to a previously deferred gain on the sale of the Atlanta Marriott Marquis in 2013 that would have qualified for recognition under the new standard. Adoption did not have an effect on our income statement for the quarter and year-to-date ended September 30, 2018 and 2017.

Policy Disclosure. There has been no significant change to our method of revenue recognition for our primary operations; however, we have updated our accounting policy and disclosures for the revenue recognition standard. See Note 4 for this disclosure.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

3. Earnings Per Common Share (Unit)

Basic earnings per common share (unit) is computed by dividing net income attributable to common stockholders (unitholders) by the weighted average number of shares of Host Inc. common stock or Host L.P. common units outstanding. Diluted earnings per common share (unit) is computed by dividing net income attributable to common stockholders (unitholders), as adjusted for potentially dilutive securities, by the weighted average number of shares of Host Inc. common stock or Host L.P. common units outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans or the common OP units distributed to Host Inc. to support such shares granted, and other non-controlling interests that have the option to convert their limited partnership interests to common OP units. No effect is shown for any securities that are anti-dilutive. We have 7.9 million common OP units which are convertible into 8.1 million common shares that are not included in Host Inc.'s calculation of earnings per share as their effect is not dilutive. The calculation of Host Inc. basic and diluted earnings per common share is shown below (in millions, except per share amounts):

	Quarter ended		Year-to-date ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$378	\$105	\$845	\$478
Less: Net income attributable to non-controlling interests	(56)	(1)	(61)	(6)
Net income attributable to Host Inc.	\$322	\$104	\$784	\$472
Basic weighted average shares outstanding	739.9	738.8	739.6	738.5
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.6	0.2	0.6	0.2
Diluted weighted average shares outstanding	740.5	739.0	740.2	738.7
Basic earnings per common share	\$.43	\$.14	\$1.06	\$.64
Diluted earnings per common share	\$.43	\$.14	\$1.06	\$.64

The calculation of Host L.P. basic and diluted earnings per unit is shown below (in millions, except per unit amounts):

Quarter ended	Year-to-date ended
September 30,	September 30,

Edgar Filing: HOST HOTELS & RESORTS, INC. - Form 10-Q

	2018	2017	2018	2017
Net income	\$378	\$105	\$845	\$478
Less: Net (income) loss attributable to non-				
controlling interests	(53)	1	(53)	—
Net income attributable to Host L.P.	\$325	\$106	\$792	\$478
Basic weighted average units outstanding	732.3	731.6	732.1	731.4
Assuming distribution of common units to				
support shares granted under the				
comprehensive stock plans, less				
shares assumed purchased at market	0.6	0.2	0.6	0.2
Diluted weighted average units outstanding	732.9	731.8	732.7	731.6
Basic earnings per common unit	\$.44	\$.14	\$1.08	\$.65
Diluted earnings per common unit	\$.44	\$.14	\$1.08	\$.65