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

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.

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PART I. FINANCIAL INFORMATION

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.

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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,		September 30,	
	2018	2017	2018	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.

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

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.

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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.

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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,		September 30,	
	2018	2017	2018	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.

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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,		September 30,	
	2018	2017	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)

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:

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Cash and cash equivalents	$ 1,269	$ 789
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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 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
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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,		September 30,	
	2018	2017	2018	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,

	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

4. Revenue

Substantially all of our operating results represent revenues and expenses generated by property-level operations. The majority of customers make payments when services are provided to them. Due to the short-term nature of our contracts and the almost concurrent receipt of payment, we have no significant performance obligations outstanding at quarter end. We collect sales, use, occupancy and similar taxes at our hotels, which we present on a net basis (excluded from revenues) on our statements of operations. Revenues are recognized when the performance obligations have been met, as follows:

Income statement line item	Recognition method
Rooms revenues	Rooms revenues represent revenues from the occupancy of our hotel rooms and are driven by the occupancy and average daily rate charged. Rooms revenues do not include ancillary services or fees charged. The contracts for room stays with customers generally are very short term in duration and revenues are recognized over time during the course of the hotel stay.
Food and beverage revenues	Food and beverage revenues consist of revenues from group functions, which may include banquet revenues and audio-visual revenues, as well as outlet revenues from the restaurants and lounges at our properties. Revenues are recognized at a point in time as the services or products are provided. Our hotels may employ third parties to provide certain services at the property, for example, audio and visual services. We evaluate each of these contracts to determine if the hotel is the principal or the agent in the transaction and record the revenues as appropriate (i.e. gross vs. net).
Other revenues	Other revenues consist of ancillary revenues at the property, including attrition and cancelation fees, golf courses, resort and destination fees, spas, entertainment and other guest services, as well as rental revenues; primarily consisting of leased retail outlets. Other revenues are generally recognized at a point in time as the services or products are provided. Attrition and cancelation fees are recognized at a point in time for non-cancelable deposits when the customer provides notification of cancelation or is a no-show for the specified date, whichever comes first.

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Disaggregation of Revenues. While we do not consider the following division by location to consist of reportable segments, we have disaggregated hotel revenues by market location. Our revenues also are presented by country in Note 11 – Geographic Information.

By Location. The following table presents hotel revenues for each of the geographic locations in our consolidated hotel portfolio (in millions):

	Quarter ended		Year-to-date ended	
	September 30,		September 30,	
Location	2018	2017	2018	2017
New York	$172	$193	$539	$554
San Diego	136	131	402	394
San Francisco/San Jose	131	106	373	313
Maui/Oahu	93	70	270	215
Washington, D.C. (Central Business District)	71	76	252	270
Boston	86	83	231	231
Phoenix	46	35	220	195
Florida Gulf Coast	37	35	216	189
Orlando	44	39	170	156
Los Angeles	48	51	143	139
Chicago	53	54	140	138
Atlanta	37	37	119	122
Northern Virginia	34	44	115	144
Seattle	38	38	99	99
Orange County	32	31	91	92
Houston	25	24	88	87
San Antonio	26	23	86	83
Jacksonville	25	21	78	72
New Orleans	19	17	75	71
Denver	26	25	69	67
Philadelphia	22	19	65	59
Miami	9	9	41	40
Other	61	64	196	217
Domestic	1,271	1,225	4,078	3,947
International	28	29	85	96
Total	$1,299	$1,254	$4,163	$4,043

5. Property and Equipment

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

	September 30, 2018	December 31, 2017
Land and land improvements	$ 1,959	$ 1,934
Buildings and leasehold improvements	13,609	13,529
Furniture and equipment	2,383	2,357
Construction in progress	179	106
	18,130	17,926
Less accumulated depreciation and amortization	(8,355)	(8,234)
	$ 9,775	$ 9,692

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6. Debt

Credit Facility. During the third quarter, we repaid $150 million under the revolver portion of the credit facility. As of September 30, we had $702 million of available capacity under the revolver portion of our credit facility.

7. Investment in Affiliates

Subsequent to quarter end, we reached an agreement to sell our approximate 33% interest in the Euro JV to the Euro JV partners for net proceeds of approximately €435 million ($505 million). The sale is expected to close during the fourth quarter of 2018, subject to customary closing conditions, including the receipt of required consents.

8. 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 Inc.	Non-redeemable, non-controlling interests	Total equity	Redeemable, non-controlling interests
Balance, December 31, 2017	$6,973	$ 29	$7,002	$ 167
Net income	784	53	837	8
Issuance of common stock for comprehensive stock plans, net	10	—	10	—
Dividends declared on common stock	(445)	—	(445)	—
Distributions to non-controlling interests	—	(1)	(1)	(5)
Changes in ownership and other	—	(8)	(8)	—
Other comprehensive loss	(5)	—	(5)	—
Cumulative effect of accounting change	5	—	5	—
Balance, September 30, 2018	$7,322	$ 73	$7,395	$ 170

Capital of Host L.P.

As of September 30, 2018, Host Inc. is the owner of approximately 99% of Host L.P.'s common OP units. The remaining common OP units are held by third party limited partners. Each common 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 common OP unit.

In exchange for any shares issued by Host Inc., Host L.P. will issue common 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.

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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, 2017	$6,973	$ 29	$7,002	$ 167
Net income	784	53	837	8
Issuance of common OP units to Host Inc. for comprehensive stock plans, net	10	—	10	—
Distributions declared on common OP units	(445)	—	(445)	(5)
Distributions to non-controlling interests	—	(1)	(1)	—
Changes in ownership and other	—	(8)	(8)	—
Other comprehensive loss	(5)	—	(5)	—
Cumulative effect of accounting change	5	—	5	—
Balance, September 30, 2018	$7,322	$ 73	$7,395	$ 170

Dividends/Distributions

On September 14, 2018, Host Inc.'s Board of Directors declared a regular quarterly cash dividend of $0.20 per share on its common stock. The dividend was paid on October 15, 2018 to stockholders of record as of September 28, 2018. Accordingly, Host L.P. made a distribution of $0.2042988 per unit on its common OP units based on the current conversion ratio.

9. Dispositions

On September 21, 2018, we sold the New York Marriott Marquis retail and theater commercial units and the related signage areas of the hotel (the "Retail") to Vornado Realty Trust for a sale price of $442 million and recorded a gain of approximately $386 million, which is net of the non-cash incurrence of a liability of approximately $35 million related to Vornado's contractual right to future real estate tax rebates. Substantially all of the net proceeds from the sale of the Retail were used to close out a reverse like-kind exchange structure established in connection with the acquisition of the Hyatt portfolio in March 2018.

In addition, during the third quarter 2018, we sold the W New York – Union Square for $171 million and recorded a loss of $4 million and sold the JW Marriott Hotel Mexico City for $183 million and recorded a gain, net of tax, of approximately $163 million. In connection with the sale of the JW Marriott Hotel Mexico City, we allocated $53 million of the gain, net of tax, to the non-controlling partner.

Subsequent to quarter end, we reached an agreement to sell The Westin New York Grand Central hotel for proceeds of approximately $300 million, including approximately $20 million of FF&E replacement funds that are anticipated to be retained by us. The sale is expected to close during the first quarter of 2019, subject to customary closing conditions, including the receipt of required consents. As a result of the executed purchase agreement and the significant deposit at risk, the hotel is classified as held for sale as of September 30, 2018.

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10. Fair Value Measurements
Impairment

During the third quarter, we recorded an impairment expense of $23 million related to The Westin New York Grand Central hotel, which impairment expense is included in depreciation and amortization expense, based on the expected sale price of the property. The expected sale price is considered an observable input other than quoted prices (Level 2) in the GAAP fair value hierarchy. The fair value of the property, less cost to sell, on September 30, 2018 was $270 million. The property was classified as held-for-sale as of September 30, 2018.

During the quarter, we also recorded an impairment expense of approximately $216 million related to the Sheraton New York Times Square Hotel, which impairment expense is included in depreciation and amortization expense, based on a fair value of $495 million for the property on September 30, 2018. The fair value is within the range of sales prices currently being negotiated with a potential buyer, which is considered an observable input other than quoted prices (Level 2) in the GAAP fair value hierarchy.

Other Liabilities

Fair Value of Other Financial Liabilities. We did not elect the fair value measurement option for any of our other financial liabilities. The fair values of our secured debt and our credit facility are determined based on expected future payments discounted at risk-adjusted rates. Our senior notes 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 value of certain financial liabilities is shown below (in millions):

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Senior notes (Level 1)	$2,781	$ 2,803	$2,778	$ 2,932
Credit facility (Level 2)	1,292	1,298	1,170	1,178

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11. Geographic Information
We consider each 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 office buildings) are immaterial and, with our operating segments, meet the aggregation criteria, and thus, we report one reportable segment: hotel ownership. Our consolidated foreign operations consist of hotels in two countries as of September 30, 2018. There were no intersegment sales during the periods presented.

The following table presents total revenues and property and equipment, net, for each of the geographical areas in which we operate (in millions):

	Total Revenues Quarter ended September 30,		Total Revenues Year-to-date ended September 30,		Property and Equipment, net	
	2018	2017	2018	2017	September 30, 2018	December 31, 2017
United States	$ 1,271	$ 1,225	$4,078	$3,947	$9,664	$ 9,548
Australia	—	2	—	18	—	—
Brazil	4	5	14	16	47	59
Canada	17	16	50	42	64	71
Mexico	7	6	21	20	—	14
Total	$ 1,299	$ 1,254	$4,163	$4,043	$9,775	$ 9,692

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12. Non-controlling Interests

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 their carrying value based on accumulated historical cost or their 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. common 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 that would be issued 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. One common OP unit may be exchanged for 1.021494 shares of Host Inc. common stock. Non-controlling interests of Host L.P. are classified in the mezzanine section of our balance sheets as they do not meet the requirements for equity 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:

	September 30, 2018	December 31, 2017
Common OP units outstanding (millions)	7.9	8.2
Market price per Host Inc. common share	$21.10	$ 19.85
Shares issuable upon conversion of one common OP unit	1.021494	1.021494
Redemption value (millions)	$170	$ 167
Historical cost (millions)	81	80
Book value (millions) [(1)]	170	167

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

Other Consolidated Partnerships. We consolidate two majority-owned partnerships that have third-party, non-controlling partners. The third-party partnership interests are included in non-controlling interests — other consolidated partnerships on the balance sheets and totaled $73 million and $29 million as of September 30, 2018 and December 31, 2017, respectively.

13. 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 legal proceedings 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.

Based on our analysis of legal proceedings with which we currently are involved or of which we are aware and our experience in resolving similar claims in the past, we have recorded minimal accruals as of September 30, 2018 related to such claims. We have estimated that, in the aggregate, our losses related to these proceedings would not be material. We are not aware of any 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.

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 approximately 99% of its partnership interests. Host L.P. is a limited partnership operating through an umbrella partnership structure. The remaining common OP units are owned by various unaffiliated limited partners.

Forward-Looking Statements

In this report on Form 10-Q, we make 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 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 the duration and strength of U.S. economic growth, global economic prospects, consumer confidence and the value of the U.S. dollar, and (ii) factors that may shape public perception of travel to a particular location such as natural disasters, weather, pandemics, changes in the international political climate, 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;
- the impact of geopolitical developments outside the United States, such as the pace of economic growth in Europe, the effects of the United Kingdom’s referendum to withdraw from the European Union, the slowing of growth in markets such as China and Brazil, or unrest in the Middle East, all of which could affect the relative volatility of global credit markets generally, global travel and lodging demand;
- risks that U.S. immigration policies and travel ban will suppress international travel to the United States generally;
- volatility in global financial and credit markets, and the impact of budget deficits and potential U.S. governmental action to address such deficits through reductions in spending and similar austerity measures, which could materially adversely affect U.S. and global economic conditions, business activity, credit availability, borrowing costs, and lodging demand;
- operating risks associated with the hotel business, including the effect of labor stoppages or strikes, increasing operating or labor costs or changes in workplace rules that affect labor costs;
- 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 amount of our indebtedness or related to restrictive covenants in our debt agreements, including the risk that a default could occur;
- our ability to maintain our properties in a first-class manner, including meeting capital expenditures requirements, and the effect of renovations, including temporary closures, on our hotel occupancy and financial results;
- the ability of our hotels to compete effectively against other lodging businesses in the highly competitive markets in which we operate in terms of access, location, quality of accommodations and room rate structures;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with our expectations;
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relationships with property managers and joint venture partners and our ability to realize the expected benefits of our joint ventures and other strategic relationships;

- risks associated with a single manager, Marriott International, managing a significant portion of our properties;
- changes in the desirability of the geographic regions of the hotels in our portfolio or in the travel patterns of hotel customers;
- the ability of third-party internet and other travel intermediaries to attract and retain customers;

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- 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 effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks;
- 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;
- the ability of Host Inc. and each of the REITs acquired, established or to be established by Host Inc. to continue to satisfy complex rules in order to qualify as REITs 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; and
- risks associated with our ability to execute our dividend policy, including factors such as investment activity, operating results and the economic outlook, any or all of which may influence the decision of our board of directors as to whether to pay future dividends at levels previously disclosed or to use available cash to pay special dividends.

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, 2017 and in other filings with the Securities and Exchange Commission ("SEC"). Although we believe that 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.

Operating Results and Outlook

Operating Results

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

Historical Income Statement Data:

	Quarter ended September 30,			Year-to-date ended September 30,		
	2018	2017	Change	2018	2017	Change
Total revenues	$1,299	$1,254	3.6 %	$4,163	$4,043	3.0 %
Net income	378	105	260.0 %	845	478	76.8 %
Operating profit (loss)	(92)	127	N/M	342	542	(36.9)%
Operating profit (loss) margin under GAAP	(7.1)%	10.1 %	(1,720 bps)	8.2 %	13.4 %	(520 bps)
Adjusted EBITDAre [1]	$344	$319	7.8 %	$1,190	$1,135	4.8 %
Diluted earnings per common share	0.43	0.14	207.1 %	1.06	0.64	65.6 %
NAREIT FFO and Adjusted FFO per diluted share [1]	0.37	0.33	12.1 %	1.34	1.27	5.5 %

Comparable Hotel Data:

	2018 Comparable Hotels (2)					
	Quarter ended September 30,			Year-to-date ended September 30,		
	2018	2017	Change	2018	2017	Change
Comparable hotel revenues [1]	$1,128	$1,098	2.8 %	$3,540	$3,451	2.6 %
Comparable hotel EBITDA [1]	309	296	4.6 %	1,029	981	4.9 %
Comparable hotel EBITDA margin [1]	27.4 %	26.9 %	50 bps	29.05 %	28.4 %	65 bps
Change in comparable hotel RevPAR - Constant US$	1.6 %			1.9 %		
Change in comparable hotel RevPAR - Nominal US$	1.4 %			1.8 %		
Change in comparable domestic RevPAR	1.4 %			1.7 %		
Change in comparable international RevPAR - Constant US$	10.8 %			14.0 %		

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(1) Adjusted EBITDAre, NAREIT FFO and Adjusted FFO per diluted share and comparable hotel operating results (including comparable hotel revenues and comparable hotel EBITDA and margins) are non-GAAP (U.S. generally accepted accounting principles) financial measures within the meaning of the rules of the SEC. See "Non-GAAP Financial Measures" for more information on these measures, including why we believe that these supplemental measures are useful, reconciliations to the most directly comparable GAAP measure, and the limitations on the use

of these supplemental measures.

(2) Comparable hotel operating statistics for 2018 and 2017 are based on 85 hotels as of September 30, 2018.

N/M=Not meaningful.

Revenue

Total revenues improved $45 million, or 3.6%, for the third quarter and $120 million, or 3.0%, year-to-date, driven by improvements in all three revenue categories. Comparable revenues increased $30 million, or 2.8%, for the third quarter and $89 million, or 2.6%, year-to-date. Despite disruption caused by displacement from Hurricanes Florence and Lane, continued high occupancy and a 1.5% increase in room rates drove comparable revenue per available room (“RevPAR”) growth of 1.6% for the third quarter, on a constant US$ basis. Year-to-date, comparable RevPAR on a constant US$ basis improved 1.9% as a result of an increase in occupancy of 70 basis points and a 1.0% increase in average room rate. For the third quarter, strong banquet and audio/visual sales drove comparable food and beverage revenues, while increases in resort and destination fees led to comparable other revenues growth for both the third quarter and year-to-date. The acquisition of three hotels in March 2018, partially offset by the sale of eight hotels in 2017 and 2018, resulted in an increase in total revenues of $16 million, or 1.2%, for the third quarter and $20 million, or 0.5%, year-to-date (see “Statement of Operations Results and Trends”).

The strongest markets for the quarter were Jacksonville and San Antonio, which had RevPAR increases of 25.0% and 12.8%, respectively, as Hurricane Irma significantly disrupted operations in the third quarter 2017. Our Philadelphia and Miami properties also outperformed the portfolio, with RevPAR increases of 10.4% and 9.5%, respectively. Philadelphia's growth was driven by The Logan's strong group room nights and transient rate, while Miami also benefited from favorable year-over-year comparisons due to the hurricane in 2017. These strong performances were offset by declines at our Washington, D.C. (Central Business District "CBD") and Los Angeles properties of 8.6% and 7.7%, respectively. Washington, D.C. CBD was impacted negatively by the loss of three city-wide events and Los Angeles experienced a decline in contract rate and room nights as well as an increase in supply. New York experienced a RevPAR decline of 2.8%, as transient occupancy decreased 4.8%.

On a constant US$ basis, RevPAR at our comparable international properties improved 10.8% for the third quarter and 14.0% year-to-date. The increase was due to strong transient demand and increase in group room nights at our Canadian properties.

Operating profit

Operating profit margin (calculated based on GAAP operating profit as a percentage of GAAP revenues) declined 1,720 basis points, to (7.1)%, for the third quarter and 520 basis points, to 8.2%, year-to-date. The significant declines for both the quarter and year-to-date were due to impairment expense recorded on two of our hotels during the quarter. These operating profit margins also are affected by several other items, including dispositions, depreciation and corporate expenses. Our comparable hotel EBITDA margins, which exclude these items, increased 50 basis points, to 27.4%, for the third quarter and 65 basis points, to 29.05%, year-to-date. For the quarter, the comparable margin improvement was driven by an increase in food and beverage revenues, productivity improvements and an increase in ancillary revenues. Year-to-date, margin improvement was driven by strong food and beverage business, continued improvements in operating efficiencies and higher ancillary revenues, partially offset by rooms department wage and benefit growth.

Net income, Adjusted EBITDAre and Adjusted FFO per Diluted Share

Net income increased $273 million for the quarter and $367 million year-to-date, as improved operations and an increase in gain on sale of assets was partially offset by an increase in impairment expense. Adjusted EBITDAre, which excludes gain on sale of assets and impairment expense, increased $25 million for the quarter and $55 million year-to-date due to the improvement in operations. These changes, including the increases in gain on sale and impairment expense, led to an increase in diluted earnings per share of $0.29, or 207.1%, for the quarter and $0.42, or 65.6%, year-to-date. Adjusted FFO per diluted share increased $0.04, or 12.1%, for the quarter and $0.07, or 5.5%, year-to-date primarily reflecting the improvement in operations.

The trends and transactions described for Host Inc. affected similarly the operating results for Host L.P., as the only significant difference between the Host Inc. and the Host L.P. statements of operations relates to the treatment of income attributable to the third party limited partners of Host L.P.

Outlook

Despite the recent stock market volatility, we remain optimistic about the overall lodging operating environment, as strong U.S. economic fundamentals, including high consumer confidence, corporate earnings and historically low-level of unemployment have resulted in increases in U.S. GDP and strengthening corporate and leisure travel. In addition, the impact of the Tax Cuts and Jobs Act of 2017 and lower regulatory burdens have resulted in increased corporate profits and business investment during the year, which historically have correlated to strengthening business transient demand, a key demand driver for our portfolio.

The rate of industry-wide supply growth is expected to slow to historical averages, although the increases vary by market. We anticipate that markets such as Maui/Oahu, Orlando, and San Diego will continue to benefit from strong leisure demand and low supply growth. Markets such as New York and Los Angeles have experienced above-average supply growth, making it more challenging for our operators to grow RevPAR. On a portfolio wide basis, high occupancies, which currently are at or near record high levels, are expected to limit RevPAR growth to increases in average rate. We believe that favorable economic fundamentals will support continued strengthening demand and allow properties to shift mix toward more profitable sources of business, driving average rate and overall RevPAR growth for our portfolio for the remainder of the year.

Based on these trends, we estimate that comparable RevPAR growth for the full year 2018 will be between 1.9% and 2.1% on a constant US$ basis. However, there can be no assurances that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower than anticipated growth in the U.S. economy, changes in travel patterns, increased market volatility, labor issues associated with our third party managers' renegotiation of collective bargaining agreements in several cities, including Boston and San Francisco, escalating trade tensions, anticipated increases in interest rates and international economic and political instability.

Strategic Initiatives

Dispositions. During the quarter, we sold the JW Marriott Hotel Mexico City, in which we held a 52% majority interest in the partnership that owned the hotel, for $183 million. We also completed the sale of the New York Marriott Marquis retail and theater commercial units and the related signage areas of the hotel (the “Retail”) to Vornado Realty Trust for a sale price of $442 million. Substantially all of the net proceeds from the sale of the Retail were used to close out a reverse like-kind exchange structure established in connection with the acquisition of the Hyatt portfolio in March 2018. In addition, we closed on the sale of the W New York – Union Square for a sale price of $171 million, including $3 million of FF&E replacement funds retained by us.

Subsequent to quarter end, we reached an agreement to sell The Westin New York Grand Central hotel for $300 million, including approximately $20 million of FF&E replacement funds that will be retained by us. The sale is expected to close during the first quarter of 2019, subject to customary closing conditions. We also reached an agreement to sell our interest in the Euro JV to the Euro JV partners for proceeds of approximately €435 million ($505 million). The sale is expected to close during the fourth quarter of 2018, subject to customary closing conditions, including the receipt of required consents. We expect to use approximately $240 million of the net proceeds from the sale of our interest in the Euro JV to repay euro denominated credit facility debt, which was designated as a currency hedge against our euro investment.

Financing transactions. During the quarter, we repaid $150 million under the revolver portion of our credit facility. As of September 30, 2018, we had $702 million of available capacity remaining under the revolver portion of our credit facility.

Capital Projects. For full year 2018, we expect total capital expenditures of $475 million to $520 million, closer to our historical average spend as compared to 2017. This total amount consists of return on investment (“ROI”) projects of approximately $195 million to $220 million and renewal and replacement expenditures of $280 million to $300 million.

We look to enhance asset value through ROI projects that are designed to take advantage of changing market conditions and the favorable locations of our properties, while seeking to increase profitability and enhance customer satisfaction. These projects are intended to improve the positioning of our hotels within their markets and competitive set as well as to incorporate elements of sustainable design and replace aging equipment and systems with more efficient technology. We also maintain the value of our properties through regular renewal and replacement capital expenditures that are designed to improve the quality and competitiveness of our hotels.

During the first three quarters of 2018, we spent approximately $106 million on ROI capital projects and $214 million on renewal and replacement projects. Significant projects completed during the quarter included meeting space renovations at ten hotels, restaurant and public space renovations at four hotels, and two engineering and technical service projects throughout our portfolio.

While it is early in the 2019 capital budgeting process, we reached an agreement with Marriott International to complete a number of brand reinvestment capital projects, similar to that at the San Francisco Marriott Marquis, over a phased four-year period. These portfolio investments are designed to better position these assets to compete in their respective markets and enhance long-term performance. As a result, we intend to spend an incremental $150 million to $200 million per year above our total historical capital expenditure spend through 2021. In exchange, Marriott has provided additional priority returns on the agreed upon investments and operating profit guarantees to offset expected business disruption.

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Results of Operations

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

	Quarter ended September 30, 2018	Quarter ended September 30, 2017	Change	Year-to-date ended September 30, 2018	Year-to-date ended September 30, 2017	Change
Total revenues	$1,299	$1,254	3.6 %	$4,163	$4,043	3.0 %
Operating costs and expenses:						
Property-level costs (1)	1,367	1,104	23.8	3,739	3,428	9.1
Corporate and other expenses	24	24	—	82	79	3.8
Gain on insurance and business interruption settlements	—	1	N/M	—	6	N/M
Operating profit (loss)	(92)	127	N/M	342	542	(36.9)
Interest expense	45	43	4.7	134	125	7.2
Gain on sale of assets	547	59	827.1	667	105	535.2
Provision for income taxes	42	42	—	63	63	—
Host Inc.:						
Net income attributable to non-controlling interests	56	1				