HOST HOTELS & RESORTS, INC.
Form 10-K
February 22, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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.)	53-0085950 (Host Hotels & Resorts, Inc.)
Delaware (Host Hotels & Resorts, L.P.) (State or Other Jurisdiction of Incorporation or Organization)	52-2095412 (Host Hotels & Resorts, L.P.) (I.R.S. Employer Identification No.)
6903 Rockledge Drive, Suite 1500 Bethesda, Maryland (Address of Principal Executive Offices)	20817 (Zip Code)

(240) 744-1000

(Registrant's Telephone Number, Including Area Code)

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

	Title of Each Class	Name of Each Exchange on Which Registered
Host Hotels & Resorts, Inc.	Common Stock, $.01 par value (752,278,409 shares outstanding as of February 19, 2016)	New York Stock Exchange
Host Hotels & Resorts, L.P.	None	None

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

Host Hotels & Resorts, Inc.	None
Host Hotels & Resorts, L.P.	Units of limited partnership interest (745,576,892 units outstanding as of February 19, 2016)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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 x	No ¨
Host Hotels & Resorts, L.P.	Yes x	No ¨

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Host Hotels & Resorts, Inc.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	(Do not check if a smaller reporting company) ¨	Smaller reporting company	¨

Host Hotels & Resorts, L.P.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	(Do not check if a smaller reporting company) x	Smaller reporting company	¨

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

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

The aggregate market value of common shares held by non-affiliates of Host Hotels & Resorts, Inc. (based on the closing sale price on the New York Stock Exchange) on June 30, 2015 was $14,592,475,672.

Documents Incorporated by Reference

Portions of Host Hotels & Resorts, Inc.'s definitive proxy statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with its annual meeting of stockholders to be held on May 12, 2016 are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the fiscal year ended December 31, 2015 of Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. Unless stated otherwise or the context otherwise requires, 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. 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. We use the term Host Inc. to specifically refer to Host Hotels & Resorts, Inc. and the term Host L.P. to specifically refer to Host Hotels & Resorts, L.P. (and its consolidated subsidiaries) in cases where it is important to distinguish between Host Inc. and Host L.P. 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”) as of December 31, 2015. The remaining partnership interests 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.

We believe combining the annual reports on Form 10-K of Host Inc. and Host L.P. into this single report results in the following benefits:

- enhances investors’ understanding of Host Inc. and Host L.P. by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined presentation, since a substantial portion of our disclosure applies to both Host Inc. and Host L.P.; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Management operates Host Inc. and Host L.P. as one enterprise. The management of Host Inc. consists of the same members who direct the management of Host L.P. The executive officers of Host Inc. are appointed by Host Inc.’s board of directors, but are employed by Host L.P. Host L.P. employs everyone who works for Host Inc. or 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 the same on their respective financial statements.

There are a few differences between Host Inc. and Host L.P., which are reflected in the disclosure in this report. We believe it is important to understand the differences between Host Inc. and Host L.P. in the context of how Host Inc. and Host L.P. operate as an interrelated consolidated company. Host Inc. is a real estate investment trust, or REIT, and its only material asset is its ownership of partnership interests of Host L.P. As a result, Host Inc. does not conduct business itself, other than acting as the sole general partner of Host L.P., and issuing public equity from time to time, the proceeds from which are contributed to Host L.P. in exchange for OP units. Host Inc. itself does not issue any indebtedness and does not guarantee the debt or obligations of Host L.P. Host L.P. holds substantially all of our assets and holds the ownership interests in our joint ventures. Host L.P. conducts the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Host Inc., Host L.P. generates the capital required by our business through Host L.P.’s operations, by Host L.P.’s direct or indirect incurrence of indebtedness, or through the issuance of OP units.

The substantive difference between the filings of Host Inc. and Host L.P. is that Host Inc. is a REIT with public stock, while Host L.P. is a partnership with no publicly traded equity. In the 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) and in the consolidated statements of operations and comprehensive income (loss) with respect to the manner in which income is allocated to non-controlling interests. Income allocable to the holders of approximately 1% of the OP units is reflected as income allocable to non-controlling interests at Host Inc. and within net income at Host L.P. Also, earnings per share generally will be slightly less than the earnings per OP unit, as each Host Inc. common share is the equivalent of .97895 OP units (instead of 1 OP unit). Apart from these differences, the financial statements of Host Inc. and Host L.P. are nearly identical.

To help investors understand the differences between Host Inc. and Host L.P., this report presents the following separate sections or portions of sections for each of Host Inc. and Host L.P.:

- Part II Item 5 - Market for Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities for Host Inc. / Market for Registrant’s Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities for Host L.P.;
- Part II Item 6 - Selected Financial Data;
- Part II Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations is combined, except for a separate discussion of material differences, if any, in the liquidity and capital resources between Host Inc. and Host L.P.;
- Part II Item 7A - Quantitative and Qualitative Disclosures about Market Risk is combined, except for separate discussions of material differences, if any, between Host Inc. and Host L.P.; and
- Part II Item 8 - Consolidated Financial Statements and Supplementary Data. While the financial statements themselves are presented separately, the notes to the financial statements generally are combined, except for separate discussions of differences between equity of Host Inc. and capital of Host L.P.

This report also includes separate Item 9A. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of Host Inc. and Host L.P. in order to establish that the Chief Executive Officer and the Chief Financial Officer of Host Inc. and the Chief Executive Officer and the Chief Financial Officer of Host Inc. as the general partner of Host L.P. have made the requisite certifications and that Host Inc. and Host L.P. are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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

PART I

Forward Looking Statements

Our disclosure and analysis in this 2015 Form 10-K and in Host Inc.'s 2015 Annual Report to stockholders contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify each such statement by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," "target," "forecast" and similar expressions in connection with any disc future operating or financial performance. In particular, these forward-looking statements include those relating to future actions, future acquisitions or dispositions, future capital expenditures plans, future performance or results of current and anticipated expenses, interest rates, foreign exchange rates or the outcome of contingencies, such as legal proceedings.

We cannot guarantee that any future results discussed in any forward-looking statements will be realized, although we believe that we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions, including those discussed in Item 1A "Risk Factors." Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those results anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make or related subjects in our reports on Form 10-Q and Form 8-K that we file with the Securities and Exchange Commission ("SEC"). Also note that, in our risk factors, we provide a cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we believe could cause our actual results to differ materially from past results and those results anticipated, estimated or projected. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. It is not possible to predict or identify all such risk factors. Consequently, you should not consider the discussion of risk factors to be a complete discussion of all of the potential risks or uncertainties that could affect our business.

Item 1. Business

Host Inc. was incorporated as a Maryland corporation in 1998 and operates as a self-managed and self-administered REIT. Host Inc. owns properties and conducts operations through Host L.P., of which Host Inc. is the sole general partner and in which it holds approximately 99% of the partnership interests ("OP units") as of December 31, 2015. The remaining partnership interests are owned by various unaffiliated limited partners. Host Inc. has the exclusive and complete responsibility for Host L.P.'s day-to-day management and control.

As of February 19, 2016, our consolidated lodging portfolio consists of 105 primarily luxury and upper-upscale hotels containing approximately 57,000 rooms, with the majority located in the United States, and with 12 of the properties located outside of the U.S. in Australia, Brazil, Canada, Chile, Mexico and New Zealand. In addition, we own non-controlling interests in two international joint ventures: approximately a 33% interest in a joint venture in Europe, which owns 10 luxury and upper-upscale hotels with approximately 3,900 rooms in Belgium, France, Germany, Spain, Sweden, the Netherlands and the United Kingdom; and a 9% indirect interest, through joint ventures, in five operating hotels in India and two additional hotels in India currently under development. We also hold non-controlling investments in two domestic hotels and a timeshare joint venture in Hawaii.

Business Strategy

Our goal is to be the preeminent owner of high-quality lodging real estate at the epicenter of dynamic, growing markets and to generate superior long-term risk-adjusted returns for our stockholders throughout all lodging cycles, through a combination of appreciation in asset values, growth in earnings, and dividend distributions. Our strategy to achieve this objective includes:

- Superior Portfolio - Own a geographically-diverse portfolio of hotels located in major urban centers and resort destinations with relatively higher barriers to entry;
- Disciplined Capital Allocation - Allocate and recycle capital to earn returns that exceed our cost of capital and actively return capital to stockholders;
- Strong Asset Management Capabilities - Create value in our existing portfolio through intelligent asset management and capital investment;
- Powerful and Flexible Capital Structure - A flexible capital structure that allows us to execute our strategy throughout the lodging cycle; and

- Employer of Choice and Responsible Corporate Citizen - Our organizational structure is aligned with our business objectives to be an employer of choice and a responsible corporate citizen.

Portfolio. We will focus on refining our portfolio to include multiple types of hotels in locations which we believe have strong demand generators that appeal to multiple customer segments, achieve premium rates, and have relatively higher barriers to entry. While we will continually evaluate and refine our portfolio, we generally focus on the following types of assets:

- Resorts in locations with strong airlift and limited supply growth. These assets feature superior amenities and are operated by premier operators;
- Convention destination hotels that are group oriented in urban/resort markets. These assets feature extensive, high-caliber meeting facilities and are often connected to prominent convention centers;
- City-center hotels in urban and coastal markets with high barriers to entry. Positioned in prime locations, these assets possess multiple demand drivers for both business and leisure travelers; and
- Suburban and airport hotels that either are market leaders in prime suburban commercial locations, or connected to airport terminals or conveniently located on airport ground.

We also will seek to have a well-balanced portfolio within select major markets. Our general goal is that 80% to 90% of our portfolio revenues will be generated by hotels located within these markets, which will allow us the flexibility to make opportunistic investments in alternative locations that we expect will perform well over time. Domestically, these markets include Los Angeles, San Francisco, San Diego, Seattle, Hawaii, New York, Washington, D.C., Boston, Florida, and Chicago. These markets historically have outperformed the overall U.S. lodging industry in terms of real revenue per available room ("RevPAR") growth, although there can be no assurances that this outperformance will continue for any number of reasons, including changes in travel patterns or supply in these markets. The following chart details the long-term performance of our domestic major markets over the past 20 years:

We will strive for diversified exposure within multiple brands, focused asset classes, and favorable location types. As one of the largest owners of Marriott, Starwood and Hyatt properties, our hotels primarily are operated under brand names that are among the most respected and widely recognized in the lodging industry. Within these diversified brands, we have focused predominately on the upper-upscale and luxury asset classes, as we believe they have a broad appeal for both the individual and group leisure and business customers.

Internationally, our focus is on premium assets in major Western European markets through our European Joint Venture platform like London, Paris and Berlin. At the same time, we plan to reduce our exposure to markets in the Asia-Pacific region and in South and Central America.

Capital Allocation. Guided by a disciplined approach to capital allocation, we are positioned to make capital decisions around delivering the greatest value and returning capital to stockholders. Our goal is to allocate and recycle capital to earn returns that exceed our risk-adjusted cost of capital.

We will look to refine our portfolio through our disposition strategy. Generally, our dispositions will be focused on non-core assets where we believe the potential for growth is constrained or on properties with significant capital expenditures requirements that we do not believe would generate a return on the investment. Prior to the sale of assets, we will look for opportunities to increase the sale price, which may include value-added capital expenditures projects and ground lease extensions. We also will look to take advantage of opportunities to capture attractive pricing for hotels that have management contract flexibility. In robust transaction markets, we also may opportunistically dispose of higher-quality assets through direct sales or through the creation of joint ventures to capitalize on value enhancement strategies and prices that are in excess of our estimated long-term value of holding the asset.

Through our disciplined approach to acquisitions and new development, we seek investments that we believe can achieve unlevered returns that exceed our cost of capital in locations that we expect to outperform in the long-term. Generally, we will look to invest capital early in the lodging cycle and benefit from the subsequent industry-wide increase in values. As we move further into the lodging cycle, we will increase our focus on opportunities where we believe we can add value through redevelopment, repositioning or new development, or pursue a portfolio or larger redevelopment asset where our scale is a competitive advantage.

We focus on creating and mining value from our existing portfolio through capital investments and value enhancement initiatives. These projects may include significant changes to guest rooms, public space and meeting space, as well as a repositioning of the property under a different operator or brand. We work closely with our managers to attempt to time these projects so as to minimize disruption to operations and the impact to the environment.

- Value Enhancement Initiatives seek to achieve the highest and best use of our properties. These projects may include the development of timeshare, office space or condominium units on excess land, redevelopment or expansion of existing retail space, and the acquisition of air rights or development entitlements.
- Redevelopment and Return on Investment Projects are designed to take advantage of changing market conditions and the favorable location of our properties and seek to increase profitability and enhance customer satisfaction. Our capital expenditures projects generally fall into the following categories:

Redevelopment projects. These projects are designed to improve the positioning of our hotels within their markets and competitive set. Redevelopment projects include extensive renovations of guest rooms and bathrooms, lobbies, food and beverage outlets; expanding and/or extensive renovation of ballroom and meeting rooms; major mechanical system upgrades, and green building initiatives and certifications.

Targeted Return on Investment (ROI) projects. These projects often are smaller and focused on increasing space profitability or lowering net operating costs. Typical ROI projects include converting unprofitable or underutilized space into meeting space, adding guestrooms, and implementing energy and water conservation measures such as LED lighting, guestroom water efficient fixtures, and building automation systems.

Renewal and Replacement Capital Expenditures are designed to maintain the quality and competitiveness of our hotel properties. Typically, room renovations occur at intervals of approximately seven years, but the timing may vary based on the type of property and equipment being renovated. These renovations generally are divided into the following types: soft goods, case goods, bathroom and infrastructure. Soft goods include items such as carpeting, bed spreads, curtains and wall vinyl and may require more frequent updates in order to maintain brand quality standards. Case goods include items such as dressers, desks, couches, restaurant and meeting room chairs and tables; which generally are not replaced as frequently. Bathroom renovations include the replacement of tile, vanity, lighting and plumbing fixtures. Infrastructure includes the physical plant of the hotel, including the roof, elevators/escalators, façade, heating, ventilation, and air conditioning systems and fire systems.

Throughout the lodging cycle, to the extent that we are unable to find appropriate investment opportunities that meet our return requirements, we will focus on returning capital to stockholders through dividends or common stock repurchases. Significant factors we review to determine the level and timing of the returns to stockholders include the current stock price compared to our determination of the underlying value of our assets, current and forecasted operating results and the completion of hotel sales.

Asset Management. As the owner of a large and diverse portfolio, we believe we are in a unique position to work with our managers to drive operating performance and implement value-added real estate decisions. The size and composition of our portfolio and our affiliation with most of the leading brands and operators in the industry allow our asset managers to benchmark similar hotels and identify best practices and efficiencies that can improve long-term profitability. Our asset managers are supported by a feasibility team that provides independent underwriting of ROI and value-enhancement projects, as well as dedicated resources around business intelligence, revenue management and restaurant and bar operations. We also carefully evaluate and monitor our property agreements, including our management and franchise agreements, in an effort to obtain flexibility and drive overall value. Ultimately, our goal is to differentiate our assets within their competitive market, drive operating performance and enhance the value of the real estate.

- Enhance profitability by using our proprietary business intelligence system to benchmark and monitor hotel performance and cost controls and complete deep-dive analytic reviews across brands and properties to identify new opportunities that could increase profit.
- Drive revenue growth by conducting detailed strategic reviews with our managers on market pricing and segment mix in order to develop the appropriate group/transient mix and market share targets for each property. We also work with

our managers to ensure that their brands' on-line presence addresses a broad customer base, including group customers and overseas travelers.

- Strategically position food & beverage outlets through initiatives such as combining bars and restaurants to create a more relevant experience for consumers throughout the day or outsourcing outlets when a viable partnership may improve profitability and increase our customer base.
- Work with leading brands, as well as independent operators, in the lodging industry and actively seek to diversify operators within our portfolio. We will look to capitalize on situations where we have management agreement flexibility to appropriately match a hotel and its operator, brand and contract terms. This will include new relationships with independent operators that may be an improved fit for smaller or unbranded products.
- Improve contract flexibility through the extension or purchase of ground leases or the restructuring of management agreements to enhance overall value.

Financing Strategy. Our goal is to maintain a flexible capital structure that allows us to execute our strategy throughout the lodging cycle. In order to maintain its qualification as a REIT, Host Inc. is required to distribute 90% of its taxable income (other than net capital gain, including taxable income recognized for federal income tax purposes but with regard to which we do not receive cash) to its stockholders and, as a result, generally relies on external sources of capital, as well as cash from operations, to finance growth. We use a variety of debt and equity instruments to fund our external growth, including senior notes and mortgage debt, exchangeable debentures, common and preferred stock offerings, issuances of OP units and joint ventures/limited partnerships to take advantage of the prevailing market conditions.

- Management believes that a strong balance sheet is a key competitive advantage that affords us a lower cost of capital and positions us for external growth. While we may issue debt at any time, generally we will target a net debt-to-earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, (or "Leverage Ratio," as defined in our credit facility) of 2.5x to 3.0x and seek to maintain an investment grade rating on our senior unsecured debt. We believe the investment grade rating and lower leverage will deliver the most consistent access to capital, thereby providing us with the necessary flexibility to take advantage of opportunities throughout the lodging cycle.
- We seek to structure our debt profile to maintain financial flexibility and a balanced maturity schedule with access to different forms of financing; primarily senior notes and exchangeable debentures, as well as mortgage debt. Generally, we look to minimize the number of assets that are encumbered by mortgage debt, minimize near-term maturities and maintain a balanced maturity schedule. We may issue debt in foreign currencies to match the proceeds thereof with their intended use in order to reduce the potential costs of investing in foreign properties in terms of foreign currency fluctuation and local taxes. Depending on market conditions, we also may utilize variable rate debt which can provide greater protection during a decline in the lodging industry. Generally we will target our floating rate debt to be 20% to 35% of total debt, in part depending on our outlook on future interest rates.
- We expect to continue to utilize joint ventures to finance external growth. We believe joint ventures provide a significant means to access external capital and spread the inherent risk of hotel ownership. Our primary focus for joint ventures is in international markets, which helps to diversify exposure to market risk.

Corporate Responsibility. Our corporate responsibility program focuses on the management of the environmental, social and governance risks and opportunities for our business and is organized around the following themes and objectives:

Responsible Investment: We incorporate sustainability into our asset management approach. During the acquisition of new properties, we assess both sustainability opportunities and climate change related risks as part of our due diligence process. During the ownership of our properties, we seek to invest in proven sustainability practices in our redevelopment and ROI projects that can enhance asset value while also improving environmental performance.

Environmental Stewardship: We seek to improve the environmental footprint of our properties. We have established goals to reduce energy use and carbon emissions from across our portfolio and will continue to report on actual performance in our environmental disclosures. As part of our asset management approach, we work closely with our hotel managers to monitor environmental performance and support implementation of operational best practices. In our redevelopment and ROI projects, we target specific environmental efficiency projects, equipment upgrades and replacements that reduce energy and water consumption and offer appropriate returns on investment.

Corporate Citizenship: We are committed to being a responsible corporate citizen and strengthening our local communities. We do this through financial support, community engagement, volunteer service, and industry collaboration. Our approach to corporate citizenship is reinforced by our Code of Business Conduct and Ethics and periodic engagement with key stakeholders to understand their corporate responsibility priorities.

The Lodging Industry

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

- Owners—own the hotel and typically enter into an agreement for an independent third party to manage the hotel. These properties may be branded and operated under the manager's brand or branded under a franchise agreement and operated by the franchisee or by an independent hotel manager. The properties also may be operated as an independent hotel by an independent hotel manager.
- Owner/Managers—own the hotel and operate the property with their own management team. These properties may be branded under a franchise agreement, operated as an independent hotel or operated under the owner's brand. We are prohibited from operating and managing hotels under applicable REIT rules.
- Franchisors—own a brand or brands and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their hotels with brand recognition, marketing support and centralized reservation systems for the franchised hotels.
- Franchisor/Managers—own a brand or brands and also operate hotels on behalf of the hotel owner or franchisee.
- Managers—operate hotels on behalf of the hotel owner, but do not, themselves, own a brand. The hotels may be operated under a franchise agreement or as an independent hotel.

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

Supply and Demand Trends. Our industry is influenced by the cyclical relationship between the supply of and demand for hotel rooms. Lodging demand growth typically is related to the vitality of the overall economy, in addition to local market factors that stimulate travel to specific destinations. In particular, trends in economic indicators such as GDP growth, business investment and employment growth are key indicators of the relative strength of lodging demand. Lodging demand also will be affected by changes to international travel.

Lodging supply growth generally is driven by overall lodging demand, as extended periods of strong demand growth tend to encourage new development. However, the rate of supply growth also is influenced by a number of additional factors, including the availability of capital, interest rates, construction costs and unique market considerations. The relatively long lead-time required to complete the development of hotels makes supply growth easier to forecast than demand growth, but increases the volatility of the cyclical behavior of the lodging industry. As illustrated in the charts below for the U.S. lodging industry, at different points in the cycle, demand may increase when there is no new supply or supply may grow when demand is declining.

Additionally, the rapid growth of on-line short-term rentals has added a new source of supply for the industry; however, the overall impact on the hotel industry has been difficult to track. Additionally, the availability of these outlets is more variable than typical changes in supply and tends to be very market specific.

Our portfolio primarily consists of upper upscale hotels and, accordingly, its performance is best understood in comparison to the upper upscale segment rather than the entire industry. Since the market downturn in 2008 and 2009, new supply of this segment has been limited and has remained well below historic levels and, as a result, demand has increased at a greater rate than supply, leading to RevPAR growth. However, as the market has continued to strengthen, supply has increased and for 2016 is expected to be commensurate with its historic cumulative average growth rate from 1988 to 2015 of approximately 2% for the industry. However, for the upper-upscale segments in which the majority of our properties compete, we continue to have a lower level of supply growth of approximately 1.5%. The charts below detail the historical supply, demand and RevPAR growth for the U.S. lodging industry and for the U.S. upper upscale segment for 2011 to 2015 and forecast data for 2016:

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

U.S. Upper Upscale Supply, Demand and RevPAR Growth

Managers and Operational Agreements

All of our hotels are managed by third parties pursuant to management or operating agreements, with some of such hotels also subject to separate franchise or license agreements addressing matters pertaining to operation under the designated brand. Under these agreements, the managers generally have sole responsibility and exclusive authority for all activities necessary for the day-to-day operation of the hotels, including establishing room rates, securing and processing reservations, procuring inventories, supplies and services, providing periodic inspection and consultation visits to the hotels by the managers' technical and operational experts and promoting and publicizing the hotels. The managers provide all managerial and other employees for the hotels, review the operation and maintenance of the hotels, prepare reports, budgets and projections, and provide other administrative and accounting support services to the hotels. These support services include planning and policy services, divisional financial services, product planning and development, employee staffing and training, corporate executive management and certain in-house legal services. We have certain approval rights over budgets, capital expenditures, significant leases and contractual commitments, and various other matters.

As of February 19, 2016, our hotels are managed by the following hotel management companies:

Manager	# of hotels	Brands
Marriott International, Inc.	53	Ritz-Carlton®, JW Marriott®, Marriott Marquis®, Marriott®, Courtyard by Marriott®, Residence Inn by Marriott®
Starwood Hotels and Resorts Worldwide, Inc.	23	W®, Westin®, Sheraton®, Luxury Collection®, St. Regis®
Hyatt Hotels Corporation	8	Grand Hyatt®, Hyatt Regency®
AccorHotels	5	ibis®, Novotel®
Hilton Hotels & Resorts	2	Hilton®, Embassy Suites®
Crestline Hotels & Resorts	2	Marriott®, Hilton®
Sage Hospitality	2	Marriott®, Curio - A Collection by Hilton®
Kokua Hospitality	2	Axiom Hotel®, Hyatt Place®
Destination Hotels	2	Autograph Collection by Marriott®, YVE Hotel Miami®
HEI Hotels & Resorts	2	Westin®, Sheraton®
Davidson Hotels & Resorts	2	Marriott®, Sheraton®
FRHI Hotels & Resorts	2	Fairmont®, Swissôtel®
	105	

These management agreements can affect the value of the property associated with it based on the pricing and flexibility of the agreement. We often will seek to negotiate the terms of an agreement to provide greater value to the associated asset. See "Performance Termination Rights" and "Special Termination Rights" described below. Currently, 32 of our management agreements have termination rights, subject to certain conditions detailed below, that can lend to the flexibility of the agreement. We have an additional eight properties currently operating under agreements that will end within the next 20 years, with no further extension options exercisable by the manager.

General Terms and Provisions – Agreements governing our hotels managed by brand owners (Marriott, Starwood, Hyatt, Hilton and AccorHotels, above) typically include the terms described below:

Term and fees for operational services. The initial term of our management and operating agreements generally is 10 to 25 years, with one or more renewal terms at the option of the manager. The majority of our management agreements condition the manager's right to exercise options for specified renewal terms upon the satisfaction of specified economic performance criteria. The manager typically receives compensation in the form of a base management fee, which is calculated as a percentage (generally 2-3%) of annual gross revenues, and an incentive management fee, which typically is calculated as a percentage (generally 10-20%) of operating profit after the owner has received a priority return on its investment in the hotel. In the case of our Starwood-managed hotels, the base management fee is only 1% of annual gross revenues, but that amount is supplemented by license fees payable to Starwood under a separate license agreement (as described below).

License services. In the case of our Starwood-managed hotels, the operation of the hotels is governed by separate license agreements addressing matters pertaining to the designated brand, including rights to use trademarks, service marks and logos, matters relating to compliance with certain brand standards and policies, and the provision of certain system programs and centralized services. Although the term of these license agreements with Starwood generally is coterminous with the corresponding operating agreements, the license agreements contemplate the potential for continued brand affiliation even in the event of a termination of the operating agreement. As noted above, the Starwood licensors receive compensation in the form of license fees (generally 5% of gross revenues attributable to room sales and 2% of gross revenues attributable to food and beverage sales), which amounts supplement the lower base management fee of 1% of gross revenues received by Starwood under the operating agreements.

Chain or system programs and services. Managers are required to provide chain or system programs and services generally that are furnished on a centralized basis. Such services include the development and operation of certain computer systems and reservation services, regional or other centralized management and administrative services, marketing and sales programs and services, training and other personnel services, and other centralized or regional services as may be determined to be more efficiently performed on a centralized, regional or group basis rather than on an individual hotel basis. Costs and expenses incurred in providing these chain or system programs and services generally are allocated on a cost reimbursement basis among all hotels managed by the manager or its affiliates or that otherwise benefit from these services.

Working capital and fixed asset supplies. We are required to maintain working capital for each hotel and to fund the cost of certain fixed asset supplies (for example, linen, china, glassware, silver and uniforms). We also are responsible for providing funds to meet the cash needs for hotel operations if at any time the funds available from working capital are insufficient to meet the financial requirements of the hotels. For certain hotels, the working capital accounts which would otherwise be maintained by the managers for each of such hotels are maintained on a pooled basis, with managers being authorized to make withdrawals from such pooled account as otherwise contemplated with respect to working capital in accordance with the provisions of the management or operating agreements.

Furniture, fixtures and equipment replacements. We are required to provide the managers with all furniture, fixtures and equipment ("FF&E") necessary for the operation of the hotels (including funding any required FF&E replacements). On an annual basis, the managers prepare budgets for FF&E to be acquired and certain routine repairs and maintenance to be performed in the next year and an estimate of the necessary funds, which budgets are subject to our review and approval. For purposes of funding such expenditures, a specified percentage (typically 5%) of the gross revenues of each hotel is deposited by the manager into an escrow or reserve account in our name, to which the manager has access. In the case of our Starwood-managed hotels, our operating agreements contemplate that this reserve account also may be used to fund the cost of certain major repairs and improvements affecting the hotel building (as described below). For certain of our Marriott-managed hotels, we have entered into an agreement with Marriott to allow for such expenditures to be funded from one pooled reserve account, rather than funds being deposited into separate reserve accounts at each hotel, with the minimum required balance maintained on an ongoing basis in that pooled reserve account being significantly below the amount that would have been maintained otherwise in such separate hotel reserve accounts. For certain of our Starwood-managed hotels, the periodic reserve fund contributions, which otherwise would be deposited into reserve accounts maintained by managers for each hotel, are distributed to us and, as to this pool of hotels, we are responsible for providing funding of expenditures which otherwise would be funded from reserve accounts for each of the subject hotels.

Building alterations, improvements and renewals. The managers are required to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and elevators of each hotel, along with alterations and improvements to the hotel as are required, in the manager's reasonable judgment, to keep the hotel in a competitive, efficient and economical operating condition that is consistent with brand standards. We generally have approval rights as to such budgets and expenditures, which we review and approve based on our manager's recommendations and on our judgment. Expenditures for these major repairs and improvements affecting the hotel building typically are funded directly by owners, although (as noted above) our agreements with Starwood contemplate that certain such expenditures may be funded from the reserve account.

Treatment of additional owner funding. As additional owner funding becomes necessary either for expenditures generally funded from the FF&E replacement funds, or for any major repairs or improvements to the hotel building which may be required to be funded directly by owners, most of our agreements provide for an economic benefit to us through an impact on the calculation of incentive management fees payable to our managers. One approach frequently utilized at our Marriott-managed hotels is to provide such owner funding through loans which are repaid, with interest, from operational revenues, with the repayment amounts reducing operating profit available for payment of incentive management fees. Another approach that is used at our Starwood-managed hotels, as well as with certain capital expenditures projects at our Marriott-managed hotels, is to treat such owner funding as an increase to our investment in the hotel, resulting in an increase to owner's priority return with a corresponding reduction to the amount of operating profit available for payment of incentive management fees. For our Starwood-managed hotels that are subject to the pooled arrangement described above, the amount of any additional reserve account funding is allocated to each of such hotels on a pro rata basis, determined with reference to the net operating income of each hotel and the total net operating income of all such pooled hotels for the most recent operating year.

Territorial protections. Certain management and operating agreements impose restrictions for a specified period which limit the manager and its affiliates from owning, operating or licensing a hotel of the same brand within a specified area. The area restrictions vary with each hotel, from city blocks in urban areas to up to a multi-mile radius from the hotel in other areas.

Sale of the hotel. Subject to specific agreements as to certain hotels (see below under 'Special Termination Rights'), we generally are limited in our ability to sell, lease or otherwise transfer the hotels by the requirement that the transferee assume the related management agreements and meet specified other conditions, including the condition that the transferee not be a competitor of the manager.

Performance Termination Rights. In addition to any right to terminate that may arise as a result of a default by the manager, most of our management and operating agreements include reserved rights by us to terminate on the basis of the manager's failure to meet certain performance-based metrics, typically including a specified threshold return on owner's investment in the hotel, along with a failure of the hotel to achieve a specified RevPAR performance threshold established with reference to other competitive hotels in the market. Typically, such performance-based termination rights arise in the event the operator fails to achieve specified performance thresholds over a consecutive two-year period, and are subject to the manager's ability to 'cure' and avoid termination by payment to us of specified deficiency amounts (or, in some instances, waiver of the right to receive specified future management fees). We have agreed in the past, and may agree in the future, to waive certain of these termination rights in exchange for consideration from a manager or its affiliates, which consideration may include cash compensation or amendments to management agreements.

Special Termination Rights. In addition to any performance-based or other termination rights set forth in our management and operating agreements, we have specific negotiated termination rights as to certain management and operating agreements. While the brand affiliation of a property may increase the value of a hotel, the ability to dispose of a property unencumbered by a management agreement, or even brand affiliation, also can increase the value for prospective purchasers. These termination rights can take a number of different forms, including termination of agreements upon sale that leave the property unencumbered by any agreement; termination upon sale provided that the property continues to be operated under a license or franchise agreement with continued brand affiliation; as well as termination without sale or other condition, which may require the payment of a fee. These termination rights also may restrict the number of agreements that may be terminated over any annual or other period; impose limitations on the number of agreements terminated as measured by EBITDA; require that a certain number of properties continue to maintain the brand affiliation; or be restricted to a specific pool of assets.

In addition to hotels managed by brand owners, we have ten branded hotels and two non-branded hotels operated by independent managers. Our management agreements with independent managers, while similar in operational scope to agreements with our brand managers, typically have shorter initial terms, no renewal rights, more flexible termination rights, and more limited system-wide services. However, while we have additional flexibility with regard to these operators, all but two of those hotels remain subject to the underlying franchise or licensing agreements.

Operating Structure

Host Inc. operates through an umbrella partnership structure in which substantially all of its assets are held by Host L.P., of which Host Inc. is the sole general partner and holds approximately 99% of the OP units as of December 31, 2015. A REIT is a corporation that has elected to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), and that meets certain ownership, organizational and operating requirements set forth under the Code. In general, through payments of dividends to stockholders, a REIT is permitted to reduce or eliminate federal income taxes at the corporate level. Each OP unit owned by holders other than Host Inc. is redeemable, at the option of the holder, for an amount of cash equal to the market value of one share of Host Inc. common stock multiplied by the current conversion factor of 1.021494. Host Inc. has the right to acquire any OP unit offered for redemption directly from the holder in exchange for 1.021494 shares of Host Inc. common stock instead of Host L.P. redeeming such OP unit for cash. Additionally, for every share of common stock issued by Host Inc., Host L.P. will issue .97895 OP units to Host Inc. in exchange for the consideration received from the issuance of the common stock. As of December 31, 2015, non-controlling limited partners held 9.1 million OP units, which were convertible into 9.4 million Host Inc. common shares. Assuming that all OP units held by non-controlling limited partners were converted into common shares, there would have been 759.7 million common shares of Host Inc. outstanding at December 31, 2015.

Our operating structure is as follows:

(1)We own a 25% interest in a joint venture in Asia, which owns a 36% non-controlling interest in a separate joint venture in India.

As a REIT, certain tax laws limit the amount of "non-qualifying" income that Host Inc. and Host L.P. can earn, including income derived directly from the operation of hotels. As a result, we lease substantially all of our consolidated properties to certain of our subsidiaries designated as taxable REIT subsidiaries ("TRS") for federal income tax purposes or to third party lessees. Our TRS are subject to income tax and are not limited as to the amount of non-qualifying income they can generate, but they are limited in terms of their value as a percentage of the total value of our assets. Our TRS enter into agreements with third parties to manage the operations of the hotels. Our TRS also may own assets engaging in other activities that produce non-qualifying income, such as the development of timeshare or condominium units, subject to certain restrictions. The difference between the hotels' net operating cash flow and the aggregate rents paid to Host L.P. is retained by our TRS as taxable income. Accordingly, the net effect of the TRS leases is that, a portion of the net operating cash flow from our properties is subject to federal, state and, if applicable, foreign income tax.

Our Consolidated Hotel Portfolio

As of February 19, 2016, we owned a portfolio of 105 hotel properties, of which 93 are located in the United States and 12 are located in Australia, Brazil, Canada, Chile, Mexico and New Zealand. Our consolidated hotels located outside the United States collectively contain approximately 3,200 rooms. Approximately 4% of our revenues were attributed to the operations of these foreign properties in 2015, and 5% in each of 2014 and 2013. See Note 15 Geographic and Business Segment Information in our Notes to Consolidated Financial Statements for more information on revenues in the geographic regions in which we operate.

The lodging industry is viewed as consisting of six different segments, each of which caters to a discrete set of customer tastes and needs: luxury, upper upscale, upscale, midscale (with and without food and beverage service) and economy. Our portfolio primarily consists of luxury and upper upscale properties, which are operated under internationally recognized brand names such as Marriott, Hyatt, Starwood and Accor Hotels. There also has been a trend towards specialized, smaller boutique hotels that are customized towards a particular customer profile. Generally, these properties will be operated by an independent third party and either will have no brand affiliation, or will be associated with a major brand, while maintaining the majority of its independent identity (which we refer to as "soft-branded" properties). We have expanded our investments to include independent and soft-branded properties where we believe it is the best fit for the hotel.

Revenues earned at our hotels consist of three broad categories: rooms, food and beverage, and other revenues. While approximately 64% of our revenue is generated from room sales, many of our properties feature a variety of amenities that help drive demand and profitability. Our hotels typically include meeting and banquet facilities, a variety of restaurants and lounges, swimming pools, exercise facilities and/or spas, gift shops and parking facilities, the combination of which enable them to serve business, leisure and group travelers.

Forty-one of our consolidated hotels, representing approximately 66% of our revenues, have in excess of 500 rooms. The average age of our properties is 30 years, although substantially all of the properties have benefited from significant renovations or major additions, as well as regularly scheduled renewal and replacement expenditures and other capital improvements.

By Brand. The following table details our consolidated hotel portfolio by brand as of February 19, 2016:

Brand	Number of Hotels	Rooms	Percentage of Revenues [1]	
Marriott:				
Marriott	43	25,145	41.8	%
Autograph Collection	1	281	0.3	
JW Marriott	6	3,105	5.5	
Residence Inn	1	299	0.3	
Ritz-Carlton	6	2,403	7.6	
Starwood:				
Westin	13	6,912	11.8	
Sheraton	7	5,797	9.3	
W	3	1,390	3.1	
St. Regis	1	232	0.5	
The Luxury Collection	2	782	1.2	
Hyatt:				
Grand Hyatt	2	1,336	2.3	
Hyatt Place	1	426	0.5	
Hyatt Regency	6	5,049	10.1	
Hilton:				
Curio	1	357	0.3	
Hilton	2	598	1.0	
Embassy Suites	1	455	0.6	
FRHI Hotels & Resorts				
Swissôtel	1	661	1.1	
Fairmont	1	450	2.0	
AccorHotels:				
ibis	3	612	0.3	
Novotel	2	304	0.2	
Other/Independent	2	394	0.2	
	105	56,988	100	

(1) Percentage of revenues is based on 2015 revenues (revenues of $5,338 million excludes properties owned by our joint ventures in the United States, Europe and the Asia/Pacific region, and sold hotels). No individual property contributed more than 7% of total revenues in 2015.

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By Location. The following table details the location and number of rooms at our consolidated hotels as of February 19, 2016:

Location	Rooms	Location	Rooms
Arizona		Illinois	
Scottsdale Marriott Suites Old Town	243	Chicago Marriott Suites Downers Grove	254
Scottsdale Marriott at McDowell Mountains	266	Chicago Marriott Suites O'Hare	256
The Phoenician, A Luxury Collection Resort	643	Courtyard Chicago Downtown/River North	337
The Camby Hotel	281	Embassy Suites by Hilton Chicago Downtown	
The Westin Kierland Resort & Spa	732	Magnificent Mile	455
California		Swissôtel Chicago	661
Axiom Hotel	151	The Westin Chicago River North	429
Coronado Island Marriott Resort & Spa (1)	300	Indiana	
Costa Mesa Marriott	253	Sheraton Indianapolis Hotel at Keystone Crossing	395
JW Marriott Desert Springs Resort & Spa	884	The Westin Indianapolis	575
Hyatt Regency San Francisco Airport	789	Louisiana	
Manchester Grand Hyatt San Diego (1)	1,628	New Orleans Marriott	1,333
Manhattan Beach Marriott (1)	385	Maryland	
Marina del Rey Marriott (1)	370	Gaithersburg Marriott Washingtonian Center	284
Marriott Marquis San Diego Marina (1)	1,360	Massachusetts	
Newport Beach Marriott Hotel & Spa	532	Boston Marriott Copley Place	1,144
Newport Beach Marriott Bayview	254	Hyatt Regency Cambridge, Overlooking Boston	470
San Francisco Marriott Fisherman's Wharf	285	Sheraton Boston Hotel	1,220
San Francisco Marriott Marquis (1)	1,500	The Westin Waltham Boston	351
San Ramon Marriott (1)	368	Minnesota	
Santa Clara Marriott (1)	759	Minneapolis Marriott City Center	583
Sheraton San Diego Hotel & Marina (1)	1,053	New Jersey	
The Ritz-Carlton, Marina del Rey (1)	304	Newark Liberty International Airport Marriott (1)	591
The Westin Los Angeles Airport (1)	740	Sheraton Parsippany Hotel	370
The Westin Mission Hills Resort & Spa	512	New York	
The Westin South Coast Plaza, Costa Mesa (2)	390	New York Marriott Downtown	513
Colorado			