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Research Note:

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## Host Hotels and Resorts (HST)

Price: \$16.11 ■ DJIA: 12,284 ■ RMZ: 820

Current Recommendation: **BUY**

### Strong Balance Sheet and Leadership Provide Defensive Play at Attractive Price

#### Overview:

Host Hotels & Resorts (HST) delivered mixed news to investors on its recent earnings conference call. Property-level earnings growth is deteriorating at a more rapid clip than originally anticipated resulting in softer-than-anticipated performance in 4Q07 and a more conservative outlook for '08. On a positive note, the well-capitalized company announced a long-awaited share repurchase program, in addition to an accelerated level of attractive capital projects at its existing hotels. HST's pristine capital structure continues to serve as noticeable differentiator versus its lodging REIT peers.

#### Hotel Operating Fundamentals Show Cracks:

HST's '07 RevPAR growth (+6.5%) and property-level margin expansion (+70 bps), while strong, came in at the low end of expectations. Demand growth in 4Q07 was not as strong as expected as short-lead-time group bookings came in somewhat weaker than anticipated. HST also witnessed anecdotal weakness in commercial transient and leisure demand in some markets. Three of HST's ten reported geographic regions, including Florida (10% of rooms), North Central (10%) and South Central (7%) experienced RevPAR declines in the fourth quarter, while the Mountain region (4%) witnessed essentially flat results. In 3Q07, only one of these regions witnessed flat or negative year-over-year RevPAR trends. Stellar 4Q07 growth was witnessed in the New England region (6% of rooms) and International markets (4%).

As anticipated, HST reduced its '08 RevPAR guidance, following the trend set by other lodging companies that have reported 4Q07 earnings. HST reduced its RevPAR guidance by 300 bps at the midpoint to a range of 2-4%. Assuming margin growth remains roughly flat, comparable property-level EBITDA is expected to increase by roughly 2-4%, a material reduction from the unsustainable double-digit increases generated in recent years. HST's '08 property-level revenue and EBITDA growth are expected to be negatively impacted to the tune of 100-200 bps by the acceleration of capital projects and related renovation disruption in '08.

#### Long-Awaited Share Repurchase Announced:

HST announced a \$500 million share repurchase program, which equates to approximately 3% of total asset value (based on our revised NAV estimate) and 5% of HST's fully-diluted share count (based on the current stock price). Repurchasing shares represents an attractive capital allocation decision considering the shares currently trade at a 33% discount to NAV (23% discount to unlevered asset value) and the current share price equates to an implied forward-looking market (after cap-ex) cap rate of 9.5%.

HST's low-levered capital structure gives the company significant financial flexibility in these troubled capital markets and stands as a noticeable advantage versus most of its lodging REIT peers. The company has the ability to repurchase shares at discounted prices, while also investing in its existing portfolio through various identified capital projects. Furthermore, if the capital markets dislocation becomes worse and fire-sale opportunities become available, HST stands in an enviable position. Shareholders should expect HST to move forward with several investment alternatives rather than "going all-in" on share repurchases. (continued on next page)

Estimates	2007E	2008E	2009E
FFO:	\$1.91	\$1.97	\$2.16
AFFO:	\$1.30	\$1.27	\$1.40
AFFO Growth Rate:	73.3%	-2.3%	10.2%

Valuation Measures	
Net Asset Value:	\$24.00
Warranted Share Price:	\$17.00
Premium/Discount to Warranted Value:	-5.2%

Important disclosure on the last page.

**Earnings Estimates Reduced:**

Our '08 FFO estimate is herein reduced by \$0.06/sh (3%) to \$1.97/sh due to a combination of a modest shortfall in '07 property-level earnings and an increased level of renovation disruption in '08. The revised '08 FFO estimate falls at the high end of management's freshly issued guidance of \$1.88-1.98/sh due partially to our higher level of anticipated share repurchase activity.

**NAV Reduced:**

Our NAV/sh estimate is herein reduced by \$0.75 (3%) to \$24.00. The modification stems from the reduction in '08 property-level EBITDA offset by an increase in the estimated value of the company's joint ventures. HST provided additional information regarding its consolidated and unconsolidated joint ventures and recently modified its joint venture accounting relating to the calculation of Adjusted EBITDA. The incremental information has provided more clarity which resulted in a modest net positive to our NAV estimate.

**Warranted Price and Recommendation:**

HST is a defensive play within hotel REITland due to the strength of its capital structure and the steady hand of its management team. Should the current valuation disconnect between the public and private markets close via higher public company valuations, then HST's shares will benefit, albeit not as much as its highly levered competitors. Should hotel values decline more than currently forecasted and the credit market deteriorate materially from current conditions, HST's ability to fund capital projects, to repurchase shares, and to hunt for property acquisitions from distressed sellers will become an even more valuable differentiator.

The 4Q07 earnings call was HST's first since the departure of CEO Chris Nassetta, who left HST for the CEO position at recently privatized Hilton Hotels. While Mr. Nassetta's departure was a loss for the company, HST's recently elevated executive team did not miss a beat and seems to have worked through the transition without any problems. New CEO Ed Walter is more than capable of leading HST and is not expected to deviate from HST's stated long-term strategy.

Our Hotel Comparative Pricing Tool indicates a warranted price of \$17.00/sh. At the current price, we continue to rate the shares of HST a BUY.

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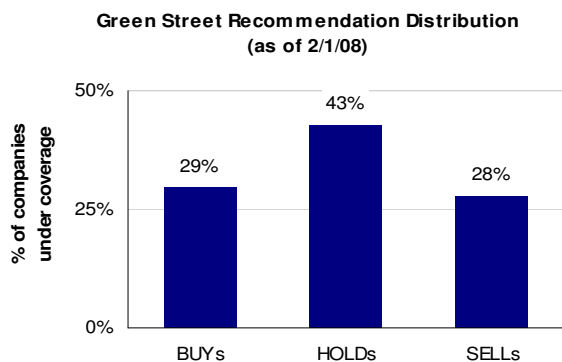


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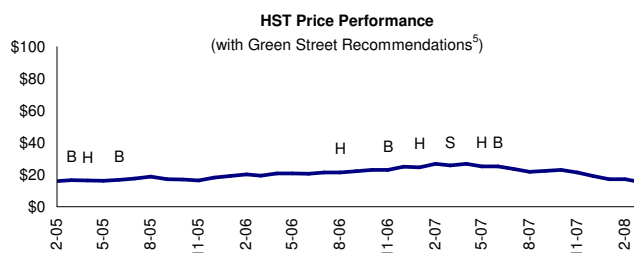
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Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs".<sup>1,2</sup>

Total Return of Green Street's Recommendations				
Year	Buy	Hold	Sell	NAREIT Eqty <sup>4</sup>
2008 YTD <sup>3</sup>	5.1%	6.6%	6.1%	-1.0%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 <sup>3</sup>	29.4%	5.4%	6.7%	12.4%
<b>Total Return<sup>3</sup></b>	<b>3866.0%</b>	<b>385.2%</b>	<b>18.5%</b>	<b>483.5%</b>
<b>Annualized</b>	<b>27.8%</b>	<b>11.1%</b>	<b>1.1%</b>	<b>12.5%</b>

The chart below shows HST's price performance over the last three years, along with Green Street's recommendations during that time.



1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".

2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.

3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through February 1, 2008.

4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.

5) Green Street has only three recommendations: BUY ("B"), HOLD ("H") and SELL ("S"). The firm does not consistently publish price targets and therefore price targets are not included in this graph.

Green Street will furnish upon request available investment information regarding the recommendation