

HOST MARRIOTT CORP/
Form 424B5
May 28, 2004
Table of Contents

Filed Pursuant to Rule 424(b)5

Registration No. 333-113901

PROSPECTUS SUPPLEMENT

(To Prospectus dated April 19, 2004)

May 26, 2004

4,000,000 Shares

8⁷/₈% Class E Cumulative Redeemable Preferred Stock

(Liquidation Preference \$25.00 Per Share)

We are offering 4,000,000 shares of our 8⁷/₈% Class E Cumulative Redeemable Preferred Stock, or Class E preferred stock.

We will pay cumulative dividends on the Class E preferred stock from the date of issuance, in the amount of \$2.21875 per share each year, which is equivalent to 8⁷/₈% of the \$25.00 liquidation preference per share. Dividends on the Class E preferred stock will be payable quarterly in arrears beginning on July 15, 2004. We may not redeem the Class E preferred stock before June 2, 2009, except under limited circumstances intended to preserve our status as a real estate investment trust and the status of our operating partnership as a partnership for Federal income tax purposes. On and after June 2, 2009, we may, at our option, redeem the Class E preferred stock, in whole or in part, by paying \$25.00 per share, plus accrued and unpaid dividends. The Class E preferred stock has no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in the Class E preferred stock will not have general voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters and in certain other events.

We have applied to list the Class E preferred stock on the New York Stock Exchange under the symbol HMTPrE. If the application is approved, we expect trading of the Class E preferred stock will commence on the New York Stock Exchange within 30 days after the initial delivery of the Class E preferred stock.

Investing in the Class E preferred stock involves risks. Before buying any shares, you should carefully read the discussion of material risks of investing in our stock in Risk Factors beginning on page S-8 of this prospectus supplement and on page 1 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price (1)	\$ 25.00	\$ 100,000,000
Underwriting discounts and commissions	\$ 0.7875	\$ 3,150,000
Proceeds, before expenses, to Host Marriott Corporation	\$ 24.2125	\$ 96,850,000

(1) Plus accrued dividends, if any, from June 2, 2004.

We have granted the underwriters an option to purchase within 30 days from the date of this prospectus up to an additional 160,000 shares of Class E preferred stock at the public offering price per share, less the underwriting discounts and commissions, to cover over-allotments.

The underwriters are offering the shares of the Class E preferred stock as described in Underwriting. The shares of the Class E Preferred Stock will be made available for delivery, through the facilities of the Depository Trust Company, on or about June 2, 2004.

Joint Book-Running Managers

UBS Investment Bank

Bear, Stearns & Co. Inc.

Deutsche Bank Securities

Legg Mason Wood Walker

Stifel, Nicolaus & Company

Incorporated

Incorporated

Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters are offering to sell the securities, or seeking offers to buy the securities, in any jurisdiction where offers or sales are not permitted. You should assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate only as of its respective date or on the date which is specified in those documents. Our business, financial condition, results of operations and prospects may have changed since any such date.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement and in the accompanying prospectus to we, us, our, or the Company means Host Marriott Corporation, including our consolidated subsidiaries. References to the Operating Partnership or to Host LP are to Host Marriott, L.P., a Delaware limited partnership.

Table of Contents

Prospectus Supplement	
About this prospectus supplement	ii
Where you can find more information	ii
Forward-looking statements	iii
Prospectus supplement summary	S-1
Risk factors	S-8
Ratio of earnings to combined fixed charges and preferred stock dividends	S-11
Use of proceeds	S-12
Dividend policy	S-13
Capitalization	S-14
Description of the Class E preferred stock	S-16
Supplemental federal income tax considerations	S-30
Underwriting	S-37
Legal matters	S-39
Independent registered public accounting firm	S-39
Prospectus	
Risk Factors	1
About this Prospectus	15
Where You Can Find More Information	16
Forward-looking Statements	17
The Company	18
Use of Proceeds	19
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	20
Description of Capital Stock	21
Description of Depositary Shares	39
Description of Warrants	43
Description of Subscription Rights	44
Plan of Distribution	45
Legal Matters	47
Experts	47

Table of Contents

About this prospectus supplement

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Class E preferred stock we are offering and certain other matters relating to us and the underwriters. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which do not apply to the Class E preferred stock we are offering. This prospectus supplement, or the information incorporated by reference herein, may add, update or change information in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference herein is inconsistent with the accompanying prospectus, this prospectus supplement or the information incorporated by reference herein, will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein, in making your investment decision. Unless otherwise noted, the information in this prospectus supplement assumes no exercise of the underwriters' over-allotment option.

Where you can find more information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and, in accordance therewith, file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. Such reports, proxy statements and other information can be inspected and copied at the Public Reference Room of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates. Such material may also be accessed electronically by means of the SEC's home page on the internet (<http://www.sec.gov>) and on our website (<http://www.hostmarriott.com>). You can also inspect reports and other information we file with the SEC at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed a registration statement and related exhibits with the SEC under the Securities Act of 1933, as amended (the "Securities Act"). The registration statement contains additional information about us and our common stock and preferred stock. You can inspect or access electronically the registration statement and exhibits by the means described in the paragraph above.

The SEC allows us to incorporate by reference the information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus and the information that we file later with the SEC may update and supersede this information. Pursuant to the section of the accompanying prospectus entitled "Where You Can Find More Information," we incorporate by reference the documents listed below and any filings made by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and before we stop offering the securities under this prospectus supplement (in each case, other than information in such documents that is deemed not to be filed):

Ø

Edgar Filing: HOST MARRIOTT CORP/ - Form 424B5

Annual Report on Form 10-K of Host Marriott Corporation for the fiscal year ended December 31, 2003 (including information specifically incorporated by reference therein from our Proxy Statement for our 2004 Annual Meeting);

ii

Table of Contents

- Ø Current Report on Form 8-K of Host Marriott Corporation dated and filed on March 5, 2004;
- Ø Current Report on Form 8-K of Host Marriott Corporation dated March 9, 2004 and filed on March 11, 2004;
- Ø Current Report on Form 8-K of Host Marriott Corporation dated March 16, 2004 and filed March 17, 2004;
- Ø Quarterly Report on Form 10-Q of Host Marriott Corporation for the quarterly period ended March 26, 2004;
- Ø Current Report on Form 8-K of Host Marriott Corporation dated April 28, 2004 and filed on April 29, 2004;
- Ø Current Report on Form 8-K of Host Marriott Corporation dated and filed on May 25, 2004;
- Ø Description of our common stock included in Registration Statement on Form 8-A, as amended, of HMC Merger Corporation, filed November 18, 1998 (as amended on December 28, 1998); and
- Ø Description of rights included in Registration Statement on Form 8-A, as amended, of HMC Merger Corporation, filed December 11, 1998 (as amended on December 24, 1998).

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus but not delivered with this prospectus. To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to our Corporate Secretary, Host Marriott Corporation, 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland, 20817 ((240) 744-1000).

You should rely only upon the information provided in this document or incorporated by reference in this prospectus and any supplement. We have not authorized anyone to provide you with different information.

Forward-looking statements

This prospectus supplement and the accompanying prospectus and the information incorporated by reference herein and therein contain certain forward-looking statements. These statements are included throughout this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein, including in the sections entitled **Risk Factors** and relate to, among other things, analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements are identified by their use of terms and phrases such as **anticipate, believe, could, estimate, expect, intend, may, plan, will, continue,** and other similar terms and phrases, including references to assumptions.

Edgar Filing: HOST MARRIOTT CORP/ - Form 424B5

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by us in those statements include, among others, the following:

- Ø the reduction in our operating flexibility and the limitation on our ability to pay dividends resulting from restrictive covenants in our debt agreements, which limit the amount of distributions the
-

Table of Contents

Operating Partnership can make to us to only permitted REIT distributions if its EBITDA-to-interest coverage ratio under the indenture governing its senior notes (which measures the Operating Partnership's ratio of its pro forma consolidated EBITDA to pro forma consolidated interest expense) is less than 2.0 to 1.0, and other risks related to restricting covenants in our debt agreements, including the risk of default that could occur;

- ∅ national and local economic and business conditions and changes in travel patterns, including the effect of terror alerts and potential terrorist activity on travel, that will affect, among other things, demand for products and services at our hotels, the level of room rates and occupancy that can be achieved by such properties and the availability and terms of financing and our liquidity;
- ∅ changes in taxes and government regulations that influence or determine wages, prices, construction procedures and costs;
- ∅ our ability to maintain properties in a first-class manner, including meeting capital expenditure requirements;
- ∅ our ability to compete effectively in areas such as access, location, quality of accommodations and room rate;
- ∅ our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with expectations;
- ∅ our degree of leverage, which may affect our ability to obtain financing in the future;
- ∅ government approvals, actions and initiatives, including the need for compliance with environmental and safety requirements, and changes in laws and regulations or the interpretation thereof;
- ∅ the effects of tax legislative action;
- ∅ our ability to continue to satisfy complex rules in order for us to maintain REIT status for Federal income tax purposes, the ability of the Operating Partnership to satisfy the rules to maintain its status as a partnership for Federal income tax purposes, the ability of certain of our subsidiaries to maintain their status as taxable REIT subsidiaries for Federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- ∅ the effect of any rating agency downgrades on the cost and availability of new debt financings;
- ∅ the relatively fixed nature of our property-level operating costs and expenses;
- ∅ our ability to recover fully under our existing insurance for terrorist acts and our ability to maintain adequate or full replacement cost all-risk property insurance on our properties; and
- ∅ other factors discussed below under the heading "Risk Factors" and in our other filings with the SEC.

Edgar Filing: HOST MARRIOTT CORP/ - Form 424B5

Although we believe the expectations reflected in our 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. Except as otherwise required by the Federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

iv

Table of Contents

Prospectus supplement summary

The following summary may not contain all of the information that is important to you in deciding whether to invest in the Class E preferred stock. You should read this entire prospectus supplement and the accompanying prospectus, together with the information incorporated by reference herein and therein, including the financial data and related notes before making an investment decision.

ABOUT THE COMPANY

We are a Maryland corporation and we operate as a self-managed and self-administered real estate investment trust, or REIT. We own our properties and conduct our operations through Host Marriott, L.P., a Delaware limited partnership of which we are the sole general partner and in which we hold 93% of the partnership interests as of May 26, 2004.

As of May 26, 2004, our lodging portfolio consisted of 111 upper-upscale and luxury full-service hotels containing approximately 56,000 rooms. Our portfolio is geographically diverse with hotels in most of the major metropolitan areas in 28 states, Washington, D.C., Toronto and Calgary, Canada and Mexico City, Mexico. Our locations include central business districts of major cities, near airports and resort/convention locations. Our hotels are operated under such brand names as Marriott, Ritz-Carlton, Hyatt, Four Seasons, Hilton and Westin.

The address of our principal executive office is 6903 Rockledge Drive, Suite 1500, Bethesda, Maryland, 20817. Our phone number is (240) 744-1000. Our Internet website address is www.hostmarriott.com.

THE LODGING INDUSTRY

The lodging industry in the United States consists of both private and public entities which operate in an extremely diversified market under a variety of brand names. Competition in the industry is based primarily on the level of service, quality of accommodations, location and room rates. In order to cater to a wide variety of tastes and needs, the lodging industry is broadly divided into six groups: luxury, upper-upscale, upscale, midscale (with and without food and beverage service) and economy.

Supply and demand growth in the lodging industry and the markets in which we operate may be influenced by a number of factors, including growth of the economy, interest rates, unique local considerations and the relatively long lead time required to develop urban and resort/convention, upper-upscale and luxury hotels. Properties in the upper-upscale segment of the lodging industry benefited from a favorable imbalance between supply and demand during the early 1990 s, driven in part by low construction levels and high gross domestic product, or GDP growth. From 1998 through 2000, supply moderately outpaced demand, which caused slight declines in occupancy rates; however, the impact of the occupancy decline was more than offset by increases in the average daily rate during that period. In 2001, the weakening economy was significantly affected by the September 11 terrorist attacks leading to a significant decline in demand. In 2002 and 2003, demand growth was slowed primarily due to the threat of additional terrorist acts, the war in Iraq and, in 2002, continued weakness in the economy. We expect the rate of supply growth, which has declined significantly since 2000, to continue to be relatively low for at least 2004 and 2005 due to the limited availability of development financing for new construction. Demand growth began to accelerate during the first quarter of 2004, and we believe that demand growth will continue for the remainder of 2004, as the economy strengthens and business travel increases.

Table of Contents

BUSINESS STRATEGY

Our primary business objective is to provide superior total returns to our stockholders through a combination of appreciation in net asset value per share, growth in earnings and dividends. In order to achieve this objective we seek to:

- Ø maximize the value of our existing portfolio through aggressive asset management which includes working with the managers of our hotels to continue to minimize operating costs and increase revenues and by completing selective capital improvements designed to increase profitability;
- Ø acquire upper-upscale and luxury hotels, including hotels operated by leading management companies;
- Ø maintain a capital structure and liquidity profile that has an appropriate balance of debt and equity and provides flexibility given the inherent volatility in the lodging industry, and improving, over the next lodging cycle, our EBITDA-to-interest coverage ratio to greater than 3.0x; and
- Ø opportunistically dispose of non-core assets, such as older assets with significant capital needs, assets that are at a competitive risk given potential new supply or assets in slower-growth markets.

We believe we are well-qualified to pursue our business strategies. Our management team has extensive experience in acquiring and financing lodging properties. We believe that management's industry knowledge, relationships and access to market information provide a competitive advantage with respect to identifying, evaluating, financing, acquiring and opportunistically disposing of lodging properties and that this competitive advantage carries over to the work we do to improve and maintain the quality of our assets. These efforts include maximizing the value of our existing portfolio by overseeing our managers in their efforts to reduce operating costs and to increase revenues at our hotels, monitoring property and brand performance, pursuing expansion and repositioning opportunities, overseeing capital expenditure budgets and forecasts, assessing return on capital expenditure opportunities and analyzing competitive supply conditions in each of our markets.

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

- Ø properties with unique locations in markets with high barriers to entry for prospective competitors, including hotels located in urban and resort/convention locations;
- Ø properties operated under premium brand names, such as Marriott, Ritz-Carlton, Four Seasons, Hilton, Hyatt and Westin;
- Ø larger hotels that are consistent with our portfolio objectives and may require significant investment, which narrows the competition for these acquisitions;
- Ø underperforming hotels whose operations can be enhanced by conversion to high quality brands and/or by upgrading or adding to the existing facilities; and
- Ø acquisitions through various structures, including transactions involving portfolios, single assets and through joint ventures.

From 1999 through mid-2003, our acquisitions were limited by the lack of suitable targets that complement our portfolio, inadequate returns and capital limitations due to weak investment markets. Consequently, our activity was primarily focused on acquiring the interests of limited or joint venture partners, consolidating our ownership of assets already included in our portfolio, and purchasing the lessee interests, which were created as part of our conversion to a REIT. Beginning in the second half of 2003, the outlook for lodging improved and suitable single asset and portfolio acquisition opportunities

S-2

Table of Contents

have become available; however, the number of competitive bidders for such opportunities has also correspondingly increased. We are actively pursuing acquisition opportunities and are in discussions with sellers of hotels that meet our investment objectives, but have not entered into any definitive agreements. Any acquisitions may be funded, at least in part, with the proceeds of equity offerings by Host Marriott, from the issuance of operating partnership units of the Operating Partnership or available cash, as well as proceeds from asset sales, the assumption of debt or draws under our credit facility. We can not be certain as to the size or timing of acquisition opportunities or of our ability to obtain additional acquisition financing, if needed.

We have not acquired hotels outside of the United States in recent years due to the difficulty in identifying opportunities that meet our return criteria. However, we intend to continue to evaluate acquisition opportunities in international locations, and will pursue these only when we believe they will offer satisfactory returns after adjustments for currency and country-related risks.

S-3

Table of Contents

The offering

Securities Offered	4,000,000 shares of 8 ⁷ / ₈ % Class E Cumulative Redeemable Preferred Stock, par value \$.01 per share. We may sell up to 160,000 additional shares of Class E preferred stock to the underwriters to cover over-allotments, if any.
Maturity	The Class E preferred stock does not have any maturity date and will not be subject to any sinking fund or mandatory redemption.
Dividends	Dividends on the Class E preferred stock issued in this offering will be cumulative from the date of issuance and are payable quarterly in arrears for the period covering the preceding calendar quarter on or before the 15th day of January, April, July and October of each year, commencing July 15, 2004, at a rate of 8 ⁷ / ₈ % per year of the \$25.00 per share liquidation preference (equivalent to \$2.21875 per year per share). Dividends on the Class E preferred stock will accrue regardless of whether we have earnings, whether there are funds legally available for the payment of such dividends and whether such dividends are declared. Because the first dividend payment date is July 15, 2004, the dividend payable on each share of Class E preferred stock on that date will be less than the amount of a full quarterly dividend.
Optional Redemption	We may not redeem the Class E preferred stock prior to June 2, 2009, except under limited circumstances intended to preserve our status as a real estate investment trust and the Operating Partnership's status as a partnership for Federal income tax purposes. On and after June 2, 2009 we may, at our option, redeem the Class E preferred stock, in whole or from time to time in part, for cash in the amount of \$25.00 per share, plus accrued and unpaid dividends to, but not including, the date of redemption.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of the Class E preferred stock will have the right to receive \$25.00 per share, plus accrued and unpaid dividends to, but not including, the date of payment. Payment of this liquidation preference must be made before any payment is made to the holders of our common stock with respect to the

S-4

Table of Contents

distribution of assets upon our liquidation, dissolution or winding up.

Ranking

The Class E preferred stock will rank, with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- (1) senior to our common stock, senior to our Series A junior participating preferred stock and senior to any other class or series of our capital stock other than as discussed below;
- (2) on a parity with our 10% Class A Cumulative Redeemable Preferred Stock, par value \$.01 per share, our 10% Class B Cumulative Redeemable Preferred Stock, par value \$.01 per share, our 10% Class C Cumulative Redeemable Preferred Stock, par value \$.01 per share, and our 10% Class D Cumulative Redeemable Preferred Stock, par value \$.01 per share, and any other class or series of our capital stock the terms of which specifically provide that such class or series of capital stock ranks on parity with the Class E preferred stock as to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; and
- (3) junior to all of our existing and future indebtedness and to any class or series of our capital stock the terms of which specifically provide that such class or series of capital stock ranks senior to the Class E preferred stock as to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up.

Voting Rights

Holders of Class E preferred stock will generally have no voting rights. However, if we do not pay dividends on the Class E preferred stock for six or more quarterly dividend periods (whether or not consecutive), the holders of the Class E preferred stock, voting as a class with the holders of any other class or series of our capital stock which has similar voting rights, will be entitled to vote for the election of two additional directors to serve on our board of directors until we pay all dividends which we owe on the Class E preferred stock and any

S-5

Table of Contents

other class or series of our capital stock with similar voting rights. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Class E preferred stock is required for us to issue capital stock ranking senior to the Class E preferred stock or to amend our charter in a manner that materially and adversely affects the Class E preferred stock.

Listing

We have applied to list the Class E preferred stock on the New York Stock Exchange under the symbol HMTPrE. If the application is approved, we expect that trading of the Class E preferred stock will commence on the NYSE within 30 days after the initial delivery of the Class E preferred stock.

Restrictions on Ownership and Transfer

The Class E preferred stock will be subject to certain restrictions on ownership and transfer intended to assist us in maintaining our status as a REIT for Federal income tax purposes and the status of the Operating Partnership as a partnership for Federal income tax purposes. In general, no person may own, or be deemed to own under the attribution rules of the Internal Revenue Code, more than 9.8% of the lesser of the number or value of the issued and outstanding shares of any class or series of preferred stock or other capital stock. Our board of directors may grant an exemption from the restrictions on ownership of Class E preferred stock to one or more purchasers in the offering if it is satisfied, based, in part, on representations by such purchaser(s), that such exemption would not jeopardize Host Marriott's status as a REIT. A detailed description of these restrictions is contained in the accompanying prospectus under Restrictions on Ownership and Transfer.

Conversion

The Class E preferred stock will not be convertible into or exchangeable for any other securities or property.

Further Issues

We may from time to time, without the consent of the holders of the Class E preferred stock, issue additional shares of preferred stock having the same liquidation preference and other terms as the Class E preferred stock except for the issue price and issue date. See Description of the Class E Preferred Stock Further Issuances.

Table of Contents

Use of Proceeds

We will contribute the net proceeds from the offering of the Class E preferred stock to the Operating Partnership in exchange for Class E preferred partnership interests in the Operating Partnership which will have economic terms substantially similar to those of the Class E preferred stock. We intend for the Operating Partnership to use these proceeds and available cash to redeem all \$104 million of aggregate principal amount of 10% Class A Cumulative Redeemable Preferred Units held by us. In turn, we intend to use the funds from the Operating Partnership to redeem all of our \$104 million of aggregate amount of 10% Class A Cumulative Redeemable Preferred Stock at \$25.00 per share; and we will pay all accumulated and unpaid dividends on such shares to the redemption date. Any proceeds not used for such purpose will be used by the Operating Partnership for general corporate purposes.

Risk factors

You should carefully consider the matters set forth under **Risk Factors** beginning on page S-8 of this prospectus supplement and page 1 of the accompanying prospectus.

S-7

Table of Contents

Risk factors

An investment in the Class E preferred stock involves risks, including those described below, in the accompanying prospectus and in our most recent Annual Report on Form 10-K. Prospective investors should carefully consider such risk factors and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before you decide to purchase Class E preferred stock.

Our ability to pay dividends on our Class E preferred stock may be limited or prohibited by the terms of our indebtedness.

We and our subsidiaries, including the Operating Partnership are, and may in the future become, parties to agreements and instruments which, among other things, restrict or prevent the payment of dividends on our classes and series of capital stock. For example, under the terms of our credit facility and our senior notes indenture, distributions to us by the Operating Partnership, which we depend upon in order to obtain the cash necessary to pay dividends, are permitted only to the extent that, at the time of the distributions, the Operating Partnership can satisfy certain financial covenant tests and meet other requirements which are summarized below in Description of the Class E Preferred Stock Dividend and Redemption Restrictions Under Debt Instruments. At any time during which it fails to meet these requirements, the Operating Partnership will only be able to make cash distributions to us in the amounts required to maintain our qualification as a REIT (subject to the limitations on the Operating Partnership's ability to pay these permitted REIT distributions described below in Description of the Class E Preferred Stock Dividend and Redemption Restrictions Under Debt Instruments).

Beginning in the third quarter of 2002 and continuing through the fiscal quarter ended March 26, 2004, the Operating Partnership was prohibited from making distributions and other restricted payments, other than permitted REIT distributions, because the Operating Partnership's EBITDA-to-interest coverage ratio as calculated under its indenture governing its senior notes (which measures the Operating Partnership's ratio of its pro forma consolidated EBITDA to pro forma consolidated interest expense) was below 2.0 to 1.0. Accordingly, during this period, the Operating Partnership was only able to make distributions to us, and we only have been able to pay dividends, to the extent that we have had taxable income and were required to make distributions to maintain our status as a REIT. Our income distribution requirements for 2002 were satisfied, in part, by the full payment of regular dividends on our outstanding classes of preferred stock in 2002 and in the first three quarters of 2003. We did not generate any taxable income from regular operations during 2003; however, taxable income generated by our insurance recovery on the World Trade Center and Financial Center hotels was sufficient to allow us to pay the regular quarterly dividend due on our outstanding classes of preferred stock for the fourth quarter of 2003 and the first quarter of 2004. We expect that the taxable income generated by the insurance recovery will be sufficient to allow us to pay the regular quarterly dividend on our outstanding classes of preferred stock during the second and third quarters of 2004.

Currently, our EBITDA-to-interest coverage ratio is slightly above 2.0 to 1.0, based upon our results of operations for the four fiscal quarters ended March 26, 2004, and after giving effect to: (i) the transactions described below in Capitalization and (ii) the re-designation by the Operating Partnership of JWDC Limited Partnership, a Delaware limited partnership through which we own the JW Marriott hotel in Washington D.C., as a restricted subsidiary under the senior notes indenture. Under the terms of the senior notes indenture, the ability to consider the pro forma effect of the transactions described in clauses (i) and (ii) of the previous sentence had the effect of improving the Operating Partnership's EBITDA-to-interest coverage ratio.

Table of Contents

Risk factors

As a result, and because we expect operations to continue to improve, we currently expect to be able to pay dividends on the Class E preferred stock, and on our outstanding classes of preferred stock which rank on a parity with the Class E preferred stock, without regard to whether we generate any taxable income. However, a decline in our operations or an increase in our consolidated interest expense, or any combination thereof, or, if the Operating Partnership is required to give pro forma effect to any other transactions that have a similar effect, could cause the Operating Partnership's EBITDA-to-interest coverage ratio to again fall below 2.0 to 1.0, which could once again limit the amount of the Operating Partnership's distributions to us (and our payment of dividends on our capital stock, including the Class E preferred stock) to only permitted REIT distributions. Since, based on current estimates, we do not currently expect to generate taxable income during 2004, if the Operating Partnership's EBITDA-to-interest coverage ratio again falls below 2.0 to 1.0, or the Operating Partnership is otherwise limited in the amount of distributions it can make to us under the terms of the senior notes indenture, we cannot assure you that we would be able to pay dividends on the Class E preferred stock and on the classes of preferred stock ranking on a parity with the Class E preferred stock. Notwithstanding the foregoing, dividends will accrue on the Class E preferred stock regardless of whether we are permitted to declare or pay such dividends.

Our ability to continue paying dividends on our outstanding classes of preferred stock will depend on several factors outside of our control, such as our liquidity, the extent of our taxable income or loss from operations in 2004 and thereafter, and our ability to meet the minimum EBITDA-to-interest coverage ratio and to satisfy the other requirements for making distributions set forth in the senior notes indenture and our credit facility. Moreover, the Class E preferred stock ranks on parity with our other classes of outstanding preferred stock. Under the terms of such outstanding classes of preferred stock, and of the Class E preferred stock, we are not permitted to pay dividends on the Class E preferred stock unless we also contemporaneously pay dividends on each other outstanding class of preferred stock. Therefore, during any period that the Operating Partnership does not meet the EBITDA-to-interest coverage ratio, any dividends resulting from our required income distributions will have to be allocated on a pro rata basis to all outstanding classes of preferred stock (including the Class E preferred stock and any subsequently issued classes of preferred stock which is on parity with the outstanding classes of preferred stock).

The Class E preferred stock is a new issuance and does not have an established trading market, which may negatively affect its market value and your ability to transfer or sell your shares, and the Class E preferred stock has no stated maturity date.

The Class E preferred stock is a new issue of securities with no established trading market. Because the Class E preferred stock does not have a stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. We have applied to list the Class E preferred stock on the NYSE; however, we cannot assure you that the Class E preferred stock will be approved for listing. If the application is approved, trading of the Class E preferred stock on the NYSE is not expected to begin until a 30-day period after the date of initial delivery of the Class E preferred stock, and, in any event, an active trading market on the NYSE for the Class E preferred stock may not develop or, even if it does develop, may not last, in which case the trading price of the Class E preferred stock could be adversely affected and your ability to trade your shares may be limited. We have been advised by the underwriters that they intend to make a market in the Class E preferred stock, but the underwriters are not obligated to do so and may cease market-making activities, if commenced, at any time.

The market value of the Class E preferred stock could be substantially affected by various factors.

As with other publicly traded securities, the trading price of the Class E preferred stock will depend on many factors, which may change from time to time, including:

Table of Contents

Risk factors

- prevailing interest rates, increases in which may have an adverse effect on the trading price of the Class E preferred stock;
- the market for similar securities;
- general economic and financial market conditions;
- the attractiveness of securities of REITs in comparison to other companies, taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;
- the market's perception of our growth potential and potential future cash dividends and whether or not we are current on our dividend payments;
- ratings of the Class E preferred stock, as determined by national ratings agencies;
- government action or regulation; and
- our financial condition, performance, and prospects.

The Class E preferred stock will be subordinate to our indebtedness, and our indebtedness could prevent us from fulfilling our obligations under the Class E preferred stock.

As adjusted to give effect to certain transactions described in "Capitalization" below, our total indebtedness was approximately \$5.6 billion at March 26, 2004. We may also borrow substantial additional secured or unsecured indebtedness in the future. The repayment of the principal and interest on our indebtedness may prevent us from being able to make dividend payments on the Class E preferred stock. In addition, in the event of bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, our indebtedness will rank senior to the Class E preferred stock, and the holders of any indebtedness will be entitled to satisfaction of any amounts owed them prior to payment of the liquidation preference of any capital stock, including the Class E preferred stock.

Table of Contents

Ratio of earnings to combined fixed charges and preferred stock dividends

The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends on a historical basis for the periods indicated (in millions, except ratios).

	Quarter Ended		Year Ended December 31,				
	March 26,		2003	2002	2001	2000	1999
	2004	March 28, 2003					
Ratio of earnings to combined fixed charges and preferred stock dividends (1).					1.1x	1.1x	1.4x
Deficiency of earnings to combined fixed charges and preferred stock dividends (2).	\$ 34	\$ 40	\$ 239	\$ 61			

- (1) The ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing income from continuing operations (after depreciation expense) before income taxes and fixed charges and preferred stock dividends by total fixed charges and preferred stock dividends. Fixed charges represent interest expense (including capitalized interest), the amortization of premiums, discounts and capitalized expenses related to indebtedness, and the portion of rental expense that represents interest.
- (2) For the first quarters ended March 26, 2004 and March 28, 2003 and for fiscal years 2003 and 2002, the deficiency of earnings to combined fixed charges and preferred stock dividends includes depreciation expense of \$83 million, \$84 million, \$367 million and \$358 million, respectively.

Table of Contents

Use of proceeds

After deducting underwriting discounts and commissions and the estimated expenses of this offering, we expect that the net proceeds from this offering will be approximately \$97 million (approximately \$101 million if the underwriters' option is exercised in full).

We will contribute the net proceeds from the offering of the Class E preferred stock to the Operating Partnership in exchange for Class E preferred partnership interests in the Operating Partnership which will have economic terms substantially similar to those of the Class E preferred stock. On or about August 3, 2004, we intend for the Operating Partnership to use these proceeds and available cash to redeem all \$104 million of its 10% Class A Cumulative Redeemable Preferred Units held by us. On or about August 3, 2004, in turn, we intend to use the funds from the Operating Partnership to redeem all of our \$104 million aggregate amount of 10% Class A Cumulative Redeemable Preferred Stock at \$25.00 per share; and we will pay all accumulated and unpaid dividends on such shares to the redemption date.

In the event the Operating Partnership was restricted by the terms of any future or existing indebtedness from redeeming its 10% Class A preferred units, then we would not be able to redeem our 10% Class A Cumulative Redeemable Preferred Stock prior to the August 3, 2004 redemption date, and the Operating Partnership would use the proceeds from this offering to repay indebtedness or for general corporate purposes. See "Description of the Class E Preferred Stock - Dividend and Redemption Restrictions Under Debt Instruments" elsewhere in this prospectus supplement.

We will invest the net proceeds in short-term, interest-bearing, investment grade obligations until they are applied as described above.

Table of Contents

Dividend policy

We are required to distribute to our stockholders at least 90% of our taxable income in order to qualify as a REIT, including taxable income we recognize for tax purposes but, with regard to which, we do not receive corresponding cash. Funds we use to pay dividends on our common and preferred stock are provided through distributions from the Operating Partnership. For every share of common and preferred stock we have outstanding, the Operating Partnership has issued to us a corresponding common Operating Partnership unit (common OP unit) or preferred Operating Partnership unit (preferred OP unit), respectively. As of May 26, 2004, we are the owner of substantially all of the preferred OP units and approximately 93% of the common OP units. The remaining 7% of the common OP units are held by various third-party limited partners. As a result of their minority position in the Operating Partnership common OP units, these holders share, on a pro rata basis, in amounts being distributed by the Operating Partnership to us on its common OP units. As a general rule, we obtain the cash necessary to pay a common or preferred dividend from an equivalent per unit distribution to us by the Operating Partnership on all common or corresponding preferred OP units. For example, if we pay a five cent per share dividend on our common stock, it would be based on payment of a five cent per common OP unit distribution by the Operating Partnership to us and to all other common OP unit holders.

We and our subsidiaries, including the Operating Partnership are, and may in the future become, parties to agreements and instruments which, among other things, restrict or prevent the payment of dividends on our classes and series of capital stock. For example, under the terms of our credit facility and our senior notes indenture, the ability of the Operating Partnership to make distributions to us which we depend upon in order to obtain the cash necessary to pay dividends on our capital stock, is subject to various prohibitions and limitations. For a discussion of these restrictions, see Description of the Class E Preferred Stock Dividend and Redemption Restrictions Under Debt Instruments and Risk Factors. Our ability to pay dividends on our Class E preferred stock may be limited or prohibited by the terms of our indebtedness, elsewhere in this prospectus supplement.

Our policy on dividends generally is to distribute at least 90% of our taxable income in order to satisfy the above REIT distribution requirements. However, we currently intend to pay dividends on our preferred stock (including the Series E preferred stock) regardless of the amount of our taxable income, so long as we are not restricted in doing so by the terms of our debt instruments.

Table of Contents

Capitalization

The following table sets forth our actual capitalization as of March 26, 2004 and our capitalization as of March 26, 2004, as adjusted to give effect to:

- The estimated net proceeds from this offering, after deducting underwriters discounts and commissions and our estimated expenses, of approximately \$97 million;
- the redemption of \$104 million of our Class A preferred stock with the estimated net proceeds of this offering and available cash;
- the redemption of \$494 million of Series B senior notes on April 15, 2004 with restricted cash and available cash;
- the redemption of \$65 million of Series B senior notes on May 3, 2004 with available cash;
- the acquisition of the Embassy Suites Chicago Downtown-Lakefront Hotel on April 27, 2004; and