

LaSalle Hotel Properties
Form 10-Q
October 19, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x 1934

For the Quarterly Period Ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____.

Commission file number 1-14045

LASALLE HOTEL PROPERTIES
(Exact name of registrant as specified in its charter)

Maryland	36-4219376
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7550 Wisconsin Avenue, 10 th Floor	20814
Bethesda, Maryland	
(Address of principal executive offices)	(Zip Code)
(301) 941-1500	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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). Yes ☒ No ☐

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:

Large accelerated filer ☒

Accelerated filer ☐

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Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☐ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common and preferred shares as of the latest practicable date.

Class	Outstanding at October 19, 2016
Common Shares of Beneficial Interest (\$0.01 par value)	113,087,443
7.5% Series H Cumulative Redeemable Preferred Shares (\$0.01 par value)	2,750,000
6.375% Series I Cumulative Redeemable Preferred Shares (\$0.01 par value)	4,400,000
6.3% Series J Cumulative Redeemable Preferred Shares (\$0.01 par value)	6,000,000

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PART I. Financial Information

Item 1. Financial Statements

LASALLE HOTEL PROPERTIES

Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2016 (unaudited)	December 31, 2015
Assets:		
Investment in hotel properties, net (Note 3)	\$ 3,721,218	\$ 3,817,676
Note receivable (Note 3)	0	80,000
Property under development	14,419	54,066
Cash and cash equivalents	134,968	5,700
Restricted cash reserves (Note 5)	15,219	26,443
Hotel receivables (net of allowance for doubtful accounts of \$393 and \$355, respectively)	46,705	39,038
Debt issuance costs for borrowings under credit facilities, net	2,093	3,347
Deferred tax assets	2,067	3,566
Prepaid expenses and other assets	41,198	39,510
Total assets	\$ 3,977,887	\$ 4,069,346
Liabilities:		
Borrowings under credit facilities (Note 4)	\$ 0	\$ 21,000
Term loans, net of unamortized debt issuance costs (Note 4)	852,618	852,203
Bonds payable, net of unamortized debt issuance costs (Note 4)	42,445	42,316
Mortgage loans, net of unamortized debt issuance costs (Note 4)	223,261	508,804
Accounts payable and accrued expenses	190,189	181,854
Advance deposits	35,930	28,471
Accrued interest	2,083	3,276
Distributions payable	56,359	53,939
Total liabilities	1,402,885	1,691,863
Commitments and contingencies (Note 5)		
Equity:		
Shareholders' Equity:		
Preferred shares of beneficial interest, \$0.01 par value (liquidation preference of \$328,750 and \$178,750, respectively), 40,000,000 shares authorized; 13,150,000 and 7,150,000 shares issued and outstanding, respectively (Note 6)	132	72
Common shares of beneficial interest, \$0.01 par value, 200,000,000 shares authorized; 113,115,442 shares issued and 113,086,561 shares outstanding, and 113,115,442 shares issued and 112,959,547 shares outstanding, respectively (Note 6)	1,131	1,131
Treasury shares, at cost (Note 6)	(776)	(4,798)
Additional paid-in capital, net of offering costs of \$85,220 and \$80,205, respectively	2,829,136	2,684,010
Accumulated other comprehensive loss (Note 4)	(11,986)	(97)

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Distributions in excess of retained earnings	(245,938) (306,051)
Total shareholders' equity	2,571,699	2,374,267	
Noncontrolling Interests:			
Noncontrolling interests in consolidated entities	17	18	
Noncontrolling interests of common units in Operating Partnership (Note 6)	3,286	3,198	
Total noncontrolling interests	3,303	3,216	
Total equity	2,575,002	2,377,483	
Total liabilities and equity	\$ 3,977,887	\$ 4,069,346	
The accompanying notes are an integral part of these consolidated financial statements.			

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Revenues:				
Hotel operating revenues:				
Room	\$237,757	\$233,993	\$664,463	\$647,031
Food and beverage	61,718	68,688	197,090	205,083
Other operating department	25,892	24,472	70,992	64,049
Total hotel operating revenues	325,367	327,153	932,545	916,163
Other income	1,569	2,557	5,582	5,736
Total revenues	326,936	329,710	938,127	921,899
Expenses:				
Hotel operating expenses:				
Room	59,342	56,283	170,596	161,002
Food and beverage	44,307	48,268	137,209	142,455
Other direct	4,562	4,960	13,218	13,807
Other indirect (Note 8)	78,734	78,070	230,932	226,949
Total hotel operating expenses	186,945	187,581	551,955	544,213
Depreciation and amortization	48,022	46,208	144,491	135,002
Real estate taxes, personal property taxes and insurance	13,913	17,045	47,023	49,331
Ground rent (Note 5)	4,570	4,491	12,491	12,164
General and administrative	6,076	6,173	19,549	18,941
Acquisition transaction costs (Note 3)	0	55	0	499
Other expenses	1,007	9,149	5,512	12,753
Total operating expenses	260,533	270,702	781,021	772,903
Operating income	66,403	59,008	157,106	148,996
Interest income	167	1,294	3,497	1,301
Interest expense	(10,332)	(13,250)	(33,681)	(40,790)
Income before income tax (expense) benefit	56,238	47,052	126,922	109,507
Income tax (expense) benefit (Note 9)	(3,109)	490	(5,099)	(216)
Income before net gain on sale of property and sale of note receivable	53,129	47,542	121,823	109,291
Net gain on sale of property and sale of note receivable (Note 3)	104,549	0	104,549	0
Net income	157,678	47,542	226,372	109,291
Net income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(203)	(75)	(299)	(229)
Net income attributable to noncontrolling interests	(203)	(75)	(307)	(237)

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Net income attributable to the Company	157,475	47,467	226,065	109,054
Distributions to preferred shareholders	(5,405)	(3,043)	(12,802)	(9,127)
Net income attributable to common shareholders	\$152,070	\$44,424	\$213,263	\$99,927

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income - Continued

(in thousands, except share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Earnings per Common Share - Basic (Note 11):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 1.34	\$ 0.39	\$ 1.89	\$ 0.88
Earnings per Common Share - Diluted (Note 11):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 1.34	\$ 0.39	\$ 1.88	\$ 0.88
Weighted average number of common shares outstanding:				
Basic	112,811,403	112,731,358	112,781,732	112,702,693
Diluted	113,159,844	113,137,284	113,138,897	113,113,859
Comprehensive Income:				
Net income	\$ 157,678	\$ 47,542	\$ 226,372	\$ 109,291
Other comprehensive income:				
Unrealized gain (loss) on interest rate derivative instruments (Note 4)	3,172	(4,245)	(17,051)	(8,617)
Reclassification adjustment for amounts recognized in net income (Note 4)	1,637	1,071	5,147	3,210
	162,487	44,368	214,468	103,884
Comprehensive income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(209)	(71)	(284)	(221)
Comprehensive income attributable to noncontrolling interests	(209)	(71)	(292)	(229)
Comprehensive income attributable to the Company	\$ 162,278	\$ 44,297	\$ 214,176	\$ 103,655

The accompanying notes are an integral part of these consolidated financial statements.

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Equity

(in thousands, except per share/unit data)

(unaudited)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interest in Consolidated Entities	Noncontrolling Interest in Common Operating Partnership	Total Noncontrolling Interests	Total Equity
Balance, December 31, 2014	\$72	\$1,127	\$(138)	\$2,673,888	\$748	\$(233,988)	\$2,441,709	\$17	\$6,660	\$6,677	\$2,448,386
Issuance of shares, net of offering costs	0	2	0	660	0	0	662	0	0	0	662
Repurchase of common shares into treasury	0	0	(7,424)	0	0	0	(7,424)	0	0	0	(7,424)
Unit conversion	0	2	0	3,398	0	0	3,400	0	(3,400)	(3,400)	0
Deferred compensation, net	0	0	1,809	3,899	0	0	5,708	0	0	0	5,708
Adjustments to noncontrolling interests	0	0	0	14	0	0	14	0	(14)	(14)	0
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(334)	(334)	0	0	0	(334)
Distributions on common shares/units (\$1.28 per share/unit)	0	0	0	0	0	(144,238)	(144,238)	0	(242)	(242)	(144,480)
Distributions on preferred shares	0	0	0	0	0	(9,127)	(9,127)	(8)	0	(8)	(9,135)
Net income	0	0	0	0	0	109,054	109,054	8	229	237	109,291

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Other
comprehensive
income:

Unrealized loss
on interest rate
derivative
instruments

0 0 0 0 (8,604) 0 (8,604) 0 (13) (13) (8,617

Reclassification
adjustment for
amounts
recognized in
net income

0 0 0 0 3,205 0 3,205 0 5 5 3,210

Balance,

September 30, 2015 \$72 \$1,131 \$(5,753) \$2,681,859 \$(4,651) \$(278,633) \$2,394,025 \$17 \$3,225 \$3,242 \$2,397,267

Balance,

December 31, 2015 \$72 \$1,131 \$(4,798) \$2,684,010 \$(97) \$(306,051) \$2,374,267 \$18 \$3,198 \$3,216 \$2,377,483

Issuance of
shares, net of
offering costs

60 0 3,196 142,208 0 0 145,464 0 0 0 145,464

Repurchase of
common shares
into treasury

0 0 (2,145) 0 0 0 (2,145) 0 0 0 (2,145

Deferred
compensation,
net

0 0 2,971 2,918 0 0 5,889 0 0 0 5,889

Distributions
on earned
shares from
share awards
with market
conditions

0 0 0 0 0 (365) (365) 0 0 0 (365

Distributions
on common
shares/units
(\$1.35 per
share/unit)

0 0 0 0 0 (152,785) (152,785) 0 (196) (196) (152,981

Distributions
on preferred
shares

0 0 0 0 0 (12,802) (12,802) (9) 0 (9) (12,811

Net income

0 0 0 0 0 226,065 226,065 8 299 307 226,372

Other
comprehensive
income:

Unrealized loss
on interest rate
derivative
instruments

0 0 0 0 (17,029) 0 (17,029) 0 (22) (22) (17,051

0 0 0 0 5,140 0 5,140 0 7 7 5,147

Reclassification
adjustment for
amounts
recognized in
net income

Balance,

September 30, 2016 \$ 132 \$ 1,131 \$(776) \$ 2,829,136 \$(11,986) \$(245,938) \$ 2,571,699 \$ 17 \$ 3,286 \$ 3,303 \$ 2,575,002

The accompanying notes are an integral part of these consolidated financial statements.

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 226,372	\$ 109,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	144,491	135,002
Amortization of debt issuance costs	2,554	1,799
Net gain on sale of property and sale of note receivable	(104,549)	0
Amortization of deferred compensation	5,889	5,708
Deferred income tax expense (benefit)	1,499	(408)
Allowance for doubtful accounts	38	80
Other	221	406
Changes in assets and liabilities:		
Restricted cash reserves	3,090	2,281
Hotel receivables	(10,835)	(20,921)
Prepaid expenses and other assets	(6,372)	(9,650)
Accounts payable and accrued expenses	7,651	31,091
Advance deposits	7,459	12,371
Accrued interest	(1,193)	(920)
Net cash provided by operating activities	276,315	266,130
Cash flows from investing activities:		

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Additions to properties	(61,006))	(83,844))
Improvements to properties	(14,147))	(8,816))
Acquisition of properties	0		(439,157))
Deposit on acquisition	0		25,000	
Purchase of office furniture and equipment	(22)	)	(137))
Acquisition of note receivable	0		(80,000))
Proceeds from sale of note receivable	79,712		0	
Restricted cash reserves	8,134		(6,749))
Proceeds from sale of property	166,736		0	
Property insurance proceeds	1,602		1,134	
Net cash provided by (used in) investing activities	181,009		(592,569))
Cash flows from financing activities:				
Borrowings under credit facilities	431,496		789,895	
Repayments under credit facilities	(452,496)	)	(409,895))
Proceeds from mortgage loan	0		225,000	
Repayments of mortgage loans	(286,294)	)	(213,558))
Payment of debt issuance costs	(5)	)	(2,857))
Purchase of treasury shares	(2,145)	)	(7,424))
Proceeds from issuance of preferred shares	150,000		0	
Payment of preferred offering costs	(4,922)	)	0	
Payment of common offering costs	(94)	)	(201))
Distributions on earned shares from share awards with market conditions	(365)	)	(334))
Distributions on preferred shares	(10,448)	)	(9,135))
Distributions on common shares/units	(152,783)	)	(135,860))

Net cash (used in)		
provided by financing activities	(328,056)	235,631
Net change in cash and cash equivalents	129,268	(90,808)
Cash and cash equivalents, beginning of period	5,700	114,131
Cash and cash equivalents, end of period	\$ 134,968	\$ 23,323

The accompanying notes are an integral part of these consolidated financial statements.

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LASALLE HOTEL PROPERTIES

Notes to Consolidated Financial Statements

(in thousands, except share/unit data)

(unaudited)

1. Organization

LaSalle Hotel Properties (the “Company”), a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed real estate investment trust (“REIT”) as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, “LHL”), the Company’s wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates.

As of September 30, 2016, the Company owned interests in 46 hotels with approximately 11,450 guest rooms located in nine states and the District of Columbia. Each hotel is leased to LHL (see Note 8) under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2016 and December 2018. Lease revenue from LHL is eliminated in consolidation. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company’s assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at September 30, 2016. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2016. See Note 6 for additional disclosures related to common units of the Operating Partnership.

2. Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. As such, certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of equity and consolidated statements of cash flows for the periods presented. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 due to seasonal and other factors. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, the Operating Partnership, LHL and their subsidiaries in which they have a controlling interest, including joint ventures. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last month of each quarter. Each quarter, the Company reviews

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the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

Investment in Hotel Properties

Upon acquisition, the Company determines the fair value of the acquired long-lived assets, assumed debt and intangible assets and liabilities. The Company's investments in hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 30 to 40 years for buildings, 15 years for building improvements, the shorter of the useful life of the improvement or the term of the related tenant lease for tenant improvements, 7 years for land improvements, 20 years for golf course land improvements, 20 years for swimming pool assets and 3 to 5 years for furniture, fixtures and equipment. For investments subject to land and building leases that qualify as capital leases, assets are recorded at the estimated fair value of the right to use the leased property at acquisition and depreciated over the shorter of the useful lives of the assets or the term of the respective lease. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

The Company is required to make subjective assessments as to the useful lives and classification of its properties for purposes of determining the amount of depreciation expense to reflect each year with respect to those properties. These assessments have a direct impact on the Company's net income. Should the Company change the expected useful life or classification of particular assets, it would result in a change in depreciation expense and annual net income.

Share-Based Compensation

From time to time, the Company awards shares under the 2014 Equity Incentive Plan, as amended ("2014 Plan"), which has approximately seven years remaining, as compensation to executives, employees and members of the Board of Trustees (see Note 7). The shares issued to executives and employees generally vest over three years. The shares issued to members of the Board of Trustees vest immediately upon issuance. The Company recognizes compensation expense for nonvested shares with service conditions or service and market conditions on a straight-line basis over the vesting period based upon the fair value of the shares on the date of issuance, adjusted for forfeitures. Compensation expense for nonvested shares with service and performance conditions is recognized based on the fair value of the estimated number of shares expected to vest, as revised throughout the vesting period, adjusted for forfeitures. The 2014 Plan replaced the 2009 Equity Incentive Plan ("2009 Plan") in May 2014.

Noncontrolling Interests

The Company's consolidated financial statements include entities in which the Company has a controlling financial interest. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations and comprehensive income (loss), revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Income or loss is allocated to noncontrolling interests based on their weighted average ownership percentage for the applicable period. Consolidated statements of equity include beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

However, the Company's noncontrolling interests that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. The Company

makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether the Company controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under share settlement of the contract. As of September 30, 2016, the consolidated results of the Company include the following ownership interests held by owners other than the Company: (i) the common units in the Operating Partnership held by third parties, (ii) the outside preferred ownership interests in a subsidiary and (iii) the outside ownership interest in a joint venture.

Variable Interest Entities

In 2016, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The Company evaluated the application of

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ASU No. 2015-02 and concluded that no change was required to its accounting of its interests in less than wholly owned joint ventures, however, the Operating Partnership now meets the criteria as a variable interest entity. The Company's significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is an obligation of the Operating Partnership.

Notes Receivable

Notes receivable are carried at cost, net of any premiums or discounts which are recognized as an adjustment of yield over the remaining life of the note using the effective interest method. Any costs related to notes receivable are expensed as incurred. Interest income is recorded on the accrual basis consistent with the terms of the notes receivable. A note is deemed to be impaired when, based on current information and events, including a review of factors that would impact the fair value of the underlying collateral, it is probable that the Company will be unable to collect all principal and interest contractually due. The Company considers current and projected cash flow, historical payment patterns, general and industry specific economic factors and operating results in determining the probability of default. Interest previously accrued but not collected becomes part of the Company's recorded investment in the note receivable for purposes of assessing impairment. The Company applies interest payments received on non-accrual notes receivable first to accrued interest and then as interest income. Notes receivable return to accrual status when contractually current and the collection of future payments is reasonably assured.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures by working with its hotel operators to analyze its revenue streams and to update its accounting policies. The Company has begun to evaluate each of its revenue streams under the new model and the pattern of recognition is not expected to change significantly. Additionally, the Company has historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, does not expect ASU No. 2014-09 to significantly impact the recognition of hotel sales. The Company does not believe ASU No. 2014-09 will have a material impact on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability. The Company adopted ASU No. 2015-03 effective January 1, 2016 and applied its provisions retrospectively. The adoption of this standard only affects the presentation of the Company's consolidated balance sheet.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not initial direct leasing costs. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Award Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the

financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold up to the maximum individual statutory tax rate the shares upon settlement of an award without causing the award to be classified as liability. The new standard is effective for the Company on January 1, 2017. Early adoption is permitted. The Company early adopted this standard on July 1, 2016 and it did not have an effect on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This standard will be effective for the first annual reporting period beginning after December 15, 2017. The Company is evaluating the effect that ASU No. 2016-15 will have on its consolidated financial statements and related disclosures.

Reclassification

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

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3. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2016 and December 31, 2015 consists of the following:

	September 30, 2016	December 31, 2015
Land	\$732,114	\$731,796
Buildings and improvements	3,547,182	3,613,724
Furniture, fixtures and equipment	761,693	701,742
Investment in hotel properties, gross	5,040,989	5,047,262
Accumulated depreciation	(1,319,771)	(1,229,586)
Investment in hotel properties, net	\$3,721,218	\$3,817,676

As of September 30, 2016 and December 31, 2015, buildings and improvements included capital lease assets of \$183,503 and accumulated depreciation included amounts related to capital lease assets of \$24,902 and \$20,915, respectively. Depreciation of the capital lease assets is included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income for all periods presented.

Depreciation expense was \$47,888 and \$144,088 for the three and nine months ended September 30, 2016, respectively, and \$46,080 and \$134,622 for the three and nine months ended September 30, 2015, respectively.

Acquisitions

During the first quarter of 2015, the Company acquired 100% interests in two full-service hotels, each of which is leased to LHL. The Company recorded the acquisitions at fair value using model-derived valuations, with the estimated fair value recorded to investment in hotel properties and hotel working capital assets and liabilities. In connection with the acquisitions, the Company incurred acquisition transaction costs that were expensed as incurred. The following is a summary of the acquisitions:

Hotel Name	Acquisition Date	Number of Rooms	Location	Purchase Price	Manager	Acquisition Transaction Costs For the three months ended September 30, 2015	For the nine months ended September 30, 2015
Park Central San Francisco	January 23, 2015	681	San Francisco, CA	\$350,000	Highgate Hotels	\$0	\$ 230
The Marker Waterfront Resort	March 16, 2015	96	Key West, FL	96,250	Highgate Hotels	0	214
Total for 2015 Acquisitions				\$446,250		\$0	\$ 444
Mezzanine Loan ⁽¹⁾						55	55
Total						\$55	\$ 499

⁽¹⁾ See "Note Receivable" below.

Total revenues and net income from the hotels acquired during 2015 of \$23,645 and \$3,399 for the three months ended September 30, 2015, respectively, and \$60,978 and \$7,841 for the nine months ended September 30, 2015, respectively, are included in the accompanying consolidated statements of operations and comprehensive income.

Disposition

Upon sale of a hotel, the Company determines its profit from the sale under the full accrual method provided the following applicable criteria are met: a sale is consummated; the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property; the Company's receivable, if applicable, is not subject to future subordination; the Company has transferred to the buyer the usual risks and rewards of ownership; and the Company does not have a substantial continuing involvement with the property. If all of these conditions are met, the Company will recognize the full profit on the sale. On July 14, 2016, the Company sold the Indianapolis Marriott Downtown for \$165,000. This sale does not represent a strategic shift in the Company's business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of \$104,837 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016. The sale of the property was recorded on the full accrual method. The proceeds were used to pay down amounts outstanding under the Company's senior unsecured credit facility and to fund the July 2016 common and preferred dividends.

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Note Receivable

On July 20, 2015, the Company provided a junior mezzanine loan (the “Mezzanine Loan”) secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, in Santa Monica, CA. The Company entered into the Mezzanine Loan for a total purchase price of \$80,000 before closing costs. The Mezzanine Loan bears interest at a variable interest rate equal to LIBOR plus 7.75%. The Mezzanine Loan matures on August 9, 2017 and has five one-year extension options, subject to conditions. The Mezzanine Loan is subordinate to a \$235,000 first mortgage loan and a \$90,000 senior mezzanine loan secured by the properties that also mature on August 9, 2017. On July 8, 2016, the Company sold the Mezzanine Loan at face value for \$80,000 less costs associated with the sale of \$288, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016. The proceeds were used to pay down amounts outstanding under the Company’s senior unsecured credit facility.

4. Long-Term Debt

Debt Summary

Debt as of September 30, 2016 and December 31, 2015 consisted of the following:

Debt	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2016	December 31, 2015
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$0	\$21,000
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			0	21,000
Term loans				
Second Term Loan	Floating/Fixed ^(c)	January 2019	300,000	300,000
Third Term Loan	Floating/Fixed ^(c)	January 2021	555,000	555,000
Debt issuance costs, net			(2,382)	(2,797)
Total term loans, net of unamortized debt issuance costs			852,618	852,203
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(55)	(184)
Total bonds payable, net of unamortized debt issuance costs			42,445	42,316
Mortgage loans				
Westin Michigan Avenue	5.75%	- ^(e)	0	131,262
Indianapolis Marriott Downtown	5.99%	- ^(e)	0	96,097
The Roger	6.31%	- ^(f)	0	58,935
Westin Copley Place	Floating ^(g)	August 2018	225,000	225,000
Debt issuance costs, net			(1,739)	(2,490)
Total mortgage loans, net of unamortized debt issuance costs			223,261	508,804
Total debt			\$1,118,324	\$1,424,323

^(a) Borrowings bear interest at floating rates equal to, at the Company’s option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2016. As of December 31, 2015, the rate, including the applicable

margin, for the Company's outstanding LIBOR borrowing of \$21,000 was 2.13%. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

- Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or
- (b) (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2016 and December 31, 2015. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

- Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into separate interest rate swap agreements for the full seven-year term of the First Term Loan (as defined below) and a
- (c) five-year term ending in August 2017 for the Second Term Loan (as defined below), resulting in fixed all-in interest rates. On November 5, 2015, the Company repaid the First Term Loan and entered into the Third Term Loan (as defined below). The Company entered

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into separate interest rate swap agreements with an aggregate notional amount of \$377,500 for the full term of the Third Term Loan. The interest rate swaps for the First Term Loan continue to be in place and were redesignated as hedging instruments through May 2019 for the Third Term Loan. At September 30, 2016 and December 31, 2015, the fixed all-in interest rates for the Second Term Loan and Third Term Loan were 2.38% and 2.95%, respectively, at the Company's current leverage ratio (as defined in the swap agreements).

- The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association that were extended to September 2017. The letters of credit have two one-year extension options, one of which was exercised in July 2016, and are secured by the Hyatt Regency Boston Harbor. The letters of credit cannot be extended beyond the
- (d) Massport Bonds' maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2016 were 0.88% and 0.89% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2015 were 0.39% and 0.02% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.
- (e) The Company repaid the mortgage loans on January 4, 2016 through borrowings on its senior unsecured credit facility.
- (f) The Company repaid the mortgage loan on February 11, 2016 through borrowings on its senior unsecured credit facility.

- The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging
- (g) from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place's net cash flow (as defined in the loan agreement). The interest rate as of September 30, 2016 was LIBOR plus 1.75%, which equaled 2.28%.

The interest rate as of December 31, 2015 was LIBOR plus 1.75%, which equaled 2.09%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

Future scheduled debt principal payments as of September 30, 2016 are as follows:

2016	\$0
2017	0
2018	267,500
2019	300,000
2020	0
Thereafter	555,000
Total debt	\$1,122,500

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2016 and 2015 is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest Expense:				
Interest incurred	\$9,552	\$12,735	\$31,421	\$39,479
Amortization of debt issuance costs	841	703	2,554	1,799
Capitalized interest	(61)	(188)	(294)	(488)
Interest expense	\$10,332	\$13,250	\$33,681	\$40,790

Weighted Average Interest Rates for Unswapped

Variable Rate Debt:

Senior unsecured credit facility	2.17	%	1.89	%	2.14	%	1.89	%
LHL unsecured credit facility	N/A		1.90	%	2.13	%	1.88	%
Massport Bonds	0.55	%	0.05	%	0.36	%	0.06	%
Mortgage loan (Westin Copley Place)	2.25	%	2.20	%	2.20	%	2.20	%

Credit Facilities

On January 8, 2014, the Company refinanced its \$750,000 senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2018, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of \$750,000, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender

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commitments, allowing for total commitments up to \$1,050,000. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

On January 8, 2014, LHL also refinanced its \$25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 8, 2018, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL credit facility. The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Term Loans

On May 16, 2012, the Company entered into a \$177,500 unsecured term loan (the "First Term Loan") with a seven-year term maturing on May 16, 2019. The First Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate. On November 5, 2015, the Company repaid the First Term Loan and redesignated the interest rate swaps as hedging instruments for the Third Term Loan as described below.

On January 8, 2014, the Company refinanced its \$300,000 unsecured term loan (the "Second Term Loan"). The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments up to \$500,000. The Second Term Loan has a five-year term maturing on January 8, 2019 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2016, through August 2, 2017 (see "Derivative and Hedging Activities" below).

On November 5, 2015, the Company entered into a \$555,000 unsecured term loan (the "Third Term Loan") with a five-year term maturing on January 29, 2021. The Third Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments up to \$700,000. The Third Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.95% at September 30, 2016 through May 16, 2019 for \$177,500 of the Third Term Loan and through January 29, 2021 for the remaining \$377,500 of the Third Term Loan (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCL") related

to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company's variable rate debt. Effective May 16, 2012, the Company entered into three interest rate swap agreements with an aggregate notional amount of \$177,500 for the First Term Loan's full seven-year term, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements). As discussed above, the First Term Loan was repaid on November 5, 2015. The interest rate swaps for the First Term Loan continue to be in place and are designated as hedging instruments for the Third Term Loan. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300,000 for the Second Term Loan through August 2, 2017, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2016. Effective November 5, 2015, the Company entered into seven interest rate

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swap agreements with an aggregate notional amount of \$377,500 for the Third Term Loan's full five-year term, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.95% at September 30, 2016. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following tables present the effect of derivative instruments on the Company's accompanying consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2016 and 2015:

	Amount of Gain (Loss)	Location of Loss	Amount of Loss
	Recognized in OCI on Derivative Instruments (Effective Portion)	Reclassified from AOCL into Net Income (Effective Portion)	Reclassified from AOCL into Net Income (Effective Portion)
	For the three months ended September 30, 2016 2015		For the three months ended September 30, 2016 2015
Derivatives in cash flow hedging relationships:			
Interest rate swaps	\$3,172 \$(4,245)	Interest expense	\$1,637 \$1,071
	Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion)	Location of Loss Reclassified from AOCL into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Net Income (Effective Portion)
	For the nine months ended September 30, 2016 2015		For the nine months ended September 30, 2016 2015

Derivatives in cash flow hedging relationships:			
Interest rate swaps	\$(17,051) \$(8,617)		\$5,147 \$3,210

Interest
expense

During the nine months ended September 30, 2016 and 2015, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2016, there was \$12,001 in cumulative unrealized loss of which \$11,986 was included in AOCL and \$15 was attributable to noncontrolling interests. As of December 31, 2015, there was \$97 in cumulative unrealized loss of which \$97 was included in AOCL and zero was attributable to noncontrolling interests. The Company expects that approximately \$6,207 will be reclassified from AOCL and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2016.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

On January 4, 2016, the Company repaid without fee or penalty the Westin Michigan Avenue mortgage loan in the amount of \$131,262 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in April 2016.

On January 4, 2016, the Company repaid without fee or penalty the Indianapolis Marriott Downtown mortgage loan in the amount of \$96,097 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in July 2016.

On February 11, 2016, the Company repaid without fee or penalty The Roger mortgage loan in the amount of \$58,831 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in August 2016.

The Company's mortgage loans contain debt service coverage ratio tests related to the mortgaged properties. If the debt service coverage ratio for a specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage

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and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows may be directed to the lender (“cash trap”) until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

Financial Covenants

Failure of the Company to comply with the financial covenants contained in its credit facilities, term loans and non-recourse secured mortgages could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates the financial covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company’s cash flow, and, consequently, cash available for distribution to its shareholders.

A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of September 30, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage loan.

5. Commitments and Contingencies**Ground, Land and Building, and Air Rights Leases**

A summary of the Company’s hotels subject to non-cancelable operating leases as of September 30, 2016 is as follows:

Lease Properties	Lease Type	Lease Expiration Date
Southernmost Beach Resort Key West (Restaurant facility)	Ground lease	April 2019 ⁽¹⁾
Hyatt Regency Boston Harbor	Ground lease	March 2026 ⁽²⁾
The Hilton San Diego Resort and Spa	Ground lease	December 2045
San Diego Paradise Point Resort and Spa	Ground lease	May 2050
Hotel Vitale	Ground lease	March 2056 ⁽³⁾
Viceroy Santa Monica	Ground lease	September 2065
Westin Copley Place ⁽⁴⁾	Air rights lease	December 2077
The Liberty Hotel	Ground lease	May 2080
Hotel Solamar	Ground lease	December 2102

⁽¹⁾ The Company can begin negotiating a renewal one year in advance of the lease expiration date.

⁽²⁾ The Company has options, subject to certain terms and conditions, to extend the ground lease for 51 years to 2077.

⁽³⁾ The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.

⁽⁴⁾ No payments are required through maturity.

The ground leases at Viceroy Santa Monica, The Liberty Hotel and Hotel Vitale are subject to minimum annual rent increases, resulting in noncash straight-line rent expense of \$472 and \$1,420 for the three and nine months ended September 30, 2016, respectively, and \$483 and \$1,463 for the three and nine months ended September 30, 2015, respectively, which is included in total ground rent expense. Total ground rent expense for the three and nine months ended September 30, 2016 was \$4,570 and \$12,491, respectively. Total ground rent expense for the three and nine months ended September 30, 2015 was \$4,491 and \$12,164,

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respectively. Certain rent payments are based on the hotel's performance. Actual payments of rent may exceed the minimum required rent due to meeting specified thresholds.

A summary of the Company's hotels subject to capital leases of land and building as of September 30, 2016 is as follows:

Lease Properties	Estimated Present Value of Remaining Rent Payments (1)	Lease Expiration Date
The Roger	\$ 4,892	December 2044
Harbor Court Hotel	\$ 18,424	April 2048
Hotel Triton ⁽²⁾	\$ 25,625	December 2049

(1) At acquisition, the estimated present value of the remaining rent payments were recorded as capital lease obligations. These obligations, net of amortization, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

(2) In 2015, the hotel lease was amended, extending the lease expiration date from January 2048 to December 2049. At acquisition, the estimated present value of the remaining payments recorded as a capital lease obligation was \$27,752. Due to the lease amendment, the recalculated estimated present value of the remaining rent payments is \$25,625, which net of amortization, is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Future minimum rent payments, including capital lease payments, (without reflecting future applicable Consumer Price Index increases) are as follows:

2016	\$3,213
2017	13,052
2018	13,195
2019	13,172
2020	13,559
Thereafter	600,780
	\$656,971

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of September 30, 2016, \$13,268 was available in restricted cash reserves for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

Restricted Cash Reserves

At September 30, 2016, the Company held \$15,219 in restricted cash reserves. Included in such amounts are \$13,268 of reserve funds for future capital expenditures and \$1,951 held by insurance and management companies on the Company's behalf to be refunded or applied to future liabilities.

Litigation

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

6. Equity

Common Shares of Beneficial Interest

On January 1, 2016, the Company issued 13,864 common shares of beneficial interest and authorized an additional 4,910 deferred shares to the independent members of its Board of Trustees for their 2015 compensation. These common shares of beneficial interest were issued under the 2014 Plan.

On March 1, 2016, the Company issued 36,926 common shares of beneficial interest to executives related to the nonvested share awards with market conditions granted on January 30, 2013 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

On March 18, 2016, the Company issued 98,787 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2017, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On April 25, 2016, the Company issued 10,526 nonvested shares with service conditions to one of the Company's executives. The nonvested shares will vest in three annual installments starting January 1, 2017, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On May 9, 2016, the Company issued 20,688 common shares of beneficial interest to its former Chief Financial Officer related to the nonvested share awards with market conditions, as a result of the previously announced termination of employment. Pursuant to the terms of the award agreements, a portion of his nonvested share awards with market conditions vested upon termination (see Note 7). Of the common shares of beneficial interest issued, 15,320 shares were issued under the 2009 Plan and 5,368 shares were issued under the 2014 Plan.

On August 11, 2016, the Company issued 42,824 common shares of beneficial interest to executives related to the nonvested share awards with market conditions granted on January 30, 2013 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

Common Dividends

The Company paid the following dividends on common shares/units during the nine months ended September 30, 2016:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
\$0.45	December 31, 2015	December 31, 2015	January 15, 2016
\$0.45	March 31, 2016	March 31, 2016	April 15, 2016
\$0.45	June 30, 2016	June 30, 2016	July 15, 2016

Treasury Shares

Treasury shares are accounted for under the cost method. During the nine months ended September 30, 2016, the Company received 96,601 common shares of beneficial interest related to employees surrendering shares to pay minimum withholding taxes at the time nonvested shares vested and forfeiting nonvested shares upon resignation. The Company's Board of Trustees previously authorized a share repurchase program (the "Repurchase Program") to acquire up to \$100,000 of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of September 30, 2016, the Company had availability under the Repurchase Program to acquire up to \$69,807 of common shares of beneficial interest. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

During the nine months ended September 30, 2016, the Company re-issued 13,864 treasury shares related to earned 2015 compensation for the Board of Trustees, 100,438 treasury shares related to the earned share awards with market conditions and 109,313 treasury shares related to the grants of nonvested shares with service conditions.

At September 30, 2016, there were 28,881 common shares of beneficial interest in treasury.

Preferred Shares

The following preferred shares of beneficial interest were outstanding as of September 30, 2016:

Security Type	Number of Shares
7.5% Series H Preferred Shares	2,750,000
6.375% Series I Preferred Shares	4,400,000
6.3% Series J Preferred Shares	6,000,000

On May 25, 2016, the Company issued 6,000,000 6.3% Series J Cumulative Redeemable Preferred Shares (the “Series J Preferred Shares”), \$0.01 par value per share (liquidation preference \$25.00 per share), at a public offering price of \$25.00 per share and received net proceeds, after deducting underwriting discounts and other offering costs, of \$145,078. The net proceeds were used to pay down amounts outstanding under the Company’s senior unsecured credit facility and for general corporate purposes.

The 7.5% Series H Cumulative Redeemable Preferred Shares (the “Series H Preferred Shares”), the 6.375% Series I Cumulative Redeemable Preferred Shares (the “Series I Preferred Shares”) and the Series J Preferred Shares (collectively, the “Preferred Shares”) rank senior to the common shares of beneficial interest and on parity with each other with respect to payment of distributions. The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares of beneficial interest unless it has also paid (or set aside for payment) the full cumulative distributions on the Preferred Shares for all past dividend periods and, with respect to the Series H Preferred Shares, for the current dividend period. The outstanding Preferred Shares do not have any maturity date, and are not subject to mandatory redemption. The difference between the carrying value and the redemption amount of the Preferred Shares are the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares.

As of January 24, 2016, the Company now may optionally redeem the Series H Preferred Shares. The Company may not optionally redeem the Series I Preferred Shares and the Series J Preferred Shares prior to March 4, 2018 and May 25, 2021, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. After those dates, the Company may, at its option, redeem the Preferred Shares, in whole or from time to time in part, by payment of \$25.00 per share, plus any accumulated, accrued and unpaid distributions. In addition, upon the occurrence of a change of control (as defined in the Company’s charter), the result of which the Company’s common shares of beneficial interest and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT LLC or the NASDAQ Stock Market, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days after the change of control occurred, by paying \$25.00 per share, plus any accrued and unpaid distributions. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of Series H Preferred Shares, Series I Preferred Shares and Series J Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares of beneficial interest based on a defined formula subject to a cap of 4,680,500 common shares, 8,835,200 common shares and 12,842,400 common shares, respectively.

Preferred Dividends

The Company paid the following dividends on preferred shares during the nine months ended September 30, 2016:

Security Type	Dividend per Share ⁽¹⁾	For the Quarter Ended	Record Date	Payable Date
7.5% Series H	\$ 0.47	December 31, 2015	January 1, 2016	January 15, 2016
6.375% Series I	\$ 0.40	December 31, 2015	January 1, 2016	January 15, 2016
7.5% Series H	\$ 0.47	March 31, 2016	April 1, 2016	April 15, 2016
6.375% Series I	\$ 0.40	March 31, 2016	April 1, 2016	April 15, 2016
7.5% Series H	\$ 0.47	June 30, 2016	July 1, 2016	July 15, 2016
6.375% Series I	\$ 0.40	June 30, 2016	July 1, 2016	July 15, 2016
6.3% Series J ⁽²⁾	\$ 0.22	June 30, 2016	July 1, 2016	July 15, 2016

⁽¹⁾ Amounts are rounded to the nearest whole cent for presentation purposes.

⁽²⁾ Partial dividend for newly issued preferred shares.

Noncontrolling Interests of Common Units in Operating Partnership

On May 13, 2015, the Company issued an aggregate of 151,077 common shares of beneficial interest in connection with the redemption of 151,077 common units of limited partnership interest held by certain limited partners of the Operating Partnership.

These common shares of beneficial interest were issued in reliance on an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Company relied on the exemption under Section 4(a)(2) based upon factual representations given by the limited partners who received the common shares of beneficial interest.

The following schedule presents the effects of changes in the Company's ownership interest in the Operating Partnership on the Company's equity:

	For the nine months ended September 30, 2015
Net income attributable to common shareholders	\$ 99,927
Increase in additional paid-in capital from adjustments to noncontrolling interests of common units in Operating Partnership	14
Change from net income attributable to common shareholders and adjustments to noncontrolling interests	\$ 99,941
There were no redemptions of common units of limited partnership interest held by limited partners of the Operating Partnership in 2016.	

As of September 30, 2016, the Operating Partnership had 145,223 common units of limited partnership interest outstanding, representing a 0.1% partnership interest, held by the limited partners. As of September 30, 2016, approximately \$3,466 of cash or the equivalent value in common shares, at the Company's option, would be paid to the limited partners of the Operating Partnership if the partnership were terminated. The approximate value of \$3,466 is based on the Company's closing common share price of \$23.87 on September 30, 2016, which is assumed to be equal to the value provided to the limited partners upon liquidation of the Operating Partnership. Subject to certain limitations, the outstanding common units of limited partnership interest are redeemable for cash, or at the Company's option, for a like number of common shares of beneficial interest of the Company.

7. Equity Incentive Plan

The common shareholders approved the 2014 Plan at the 2014 Annual Meeting of Shareholders held on May 7, 2014, which permits the Company to issue equity-based awards to executives, employees, non-employee members of the Board of Trustees and any other persons providing services to or for the Company and its subsidiaries. The 2014 Plan provides for a maximum of 2,900,000 common shares of beneficial interest to be issued in the form of share options, share appreciation rights, restricted or unrestricted share awards, phantom shares, performance awards, incentive awards, other share-based awards, or any combination of the foregoing. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2014 Plan during any fiscal year to any one individual is limited to 500,000 shares. The 2014 Plan terminates on February 17, 2024. The 2014 Plan authorized, among other things: (i) the grant of share options that qualify as incentive options under the Code, (ii) the grant of share options that do not so qualify, (iii) the grant of common shares in lieu of cash for trustees' fees, (iv) grants of common shares in lieu of cash compensation and (v) the making of loans to acquire common shares in lieu of compensation (to the extent permitted by law and applicable provisions of the Sarbanes Oxley Act of 2002). The exercise price of share options is determined by the Compensation Committee of the Board of Trustees, but may not be less than 100% of the fair value of the common shares on the date of grant. Restricted share awards and options under the 2014 Plan vest over a period determined by the Compensation Committee of the Board of Trustees, generally a three year period. The duration of each option is also determined by the Compensation Committee, subject to applicable laws and regulations. At September 30, 2016, there were 2,667,452 common shares available for future grant under the 2014 Plan. Upon the approval of the 2014 Plan by the common shareholders on May 7, 2014, the 2014 Plan replaced the 2009 Plan. The Company will no longer make any grants under the 2009 Plan (although awards previously made under the 2009 Plan that are outstanding will remain in effect in accordance with the terms of that plan and the applicable award agreements).

Nonvested Share Awards with Service Conditions

From time to time, the Company awards nonvested shares under the 2014 Plan to executives, employees and members of the Board of Trustees. The nonvested shares issued to executives and employees generally vest over three years based on continued employment. The shares issued to the members of the Board of Trustees vest immediately upon issuance. The Company determines the grant date fair value of the nonvested shares based upon the closing stock price of its common shares on the New York Stock Exchange on the date of grant and number of shares per the award agreements. Compensation costs are recognized on a straight-line basis over the requisite service period and are included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income.

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A summary of the Company's nonvested share awards with service conditions as of September 30, 2016 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2016	228,835	\$ 33.29
Granted	109,313	25.01
Vested ⁽²⁾	(90,191)	31.70
Forfeited	(12,711)	27.41
Nonvested at September 30, 2016 ⁽¹⁾	235,246	\$ 30.82

(1) Amount excludes 29,376 share awards with market conditions which were earned but nonvested due to a service condition as of September 30, 2016.

(2) Amount includes accelerated vesting of the former Chief Financial Officer's shares.

As of September 30, 2016 and December 31, 2015, there were \$3,473 and \$3,914, respectively, of total unrecognized compensation costs related to nonvested share awards with service conditions. As of September 30, 2016 and December 31, 2015, these costs were expected to be recognized over a weighted-average period of 1.3 and 1.4 years, respectively. The total intrinsic value of shares vested (calculated as number of shares multiplied by vesting date share price) during the three and nine months ended September 30, 2016 was zero and \$2,256, respectively, and during the three and nine months ended September 30, 2015 was zero and \$3,152, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with service conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were \$700 and \$2,289 for the three and nine months ended September 30, 2016, respectively, and \$818 and \$2,505 for the three and nine months ended September 30, 2015, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, all of his nonvested share awards with service conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized compensation costs related to his nonvested share awards with service conditions over the estimated remaining service period. On May 6, 2016, all of his nonvested share awards with service conditions vested with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was zero and \$538 for the three and nine months ended September 30, 2016, respectively.

Nonvested Share Awards with Market or Performance Conditions

On January 30, 2013, the Company's Board of Trustees granted a target of 80,559 nonvested share awards with either market or performance conditions to executives. On March 1, 2016, the executives earned 91.7% of their 40,280 target number of shares, or 36,926 shares, and all of the earned shares vested immediately. The shares representing the difference between 91.7% and 100% of the target, or 3,354 shares, were forfeited on March 1, 2016. The executives also received a cash payment of \$151 on the shares equal to the value of all dividends paid on common shares from January 1, 2013 until the determination date, February 29, 2016. As of March 1, 2016, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares. On August 11, 2016, the executives earned 133.2% of their 32,117 remaining target shares, or 42,824 shares, and all of the earned shares vested immediately. The executives also received a cash payment of \$214 on the shares equal to the value of all dividends paid on common shares from January 1, 2013 until the determination date, August 11, 2016. As of August 11, 2016, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares.

On March 18, 2016, the Company's Board of Trustees granted a target of 97,175 nonvested share awards with either market or performance conditions to executives (the "March 18, 2016 Awards"). The actual amounts of the shares awarded with respect to 48,587 of the 97,175 shares will be determined on or about January 1, 2019, based on the performance measurement period of January 1, 2016 through December 31, 2018, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 48,588 of the 97,175 shares will be determined on or about July 1, 2019, based on the performance measurement period of July 1, 2016 through June 30, 2019, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardees on or about January 1, 2019 and July 1, 2019, respectively. Thereafter,

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the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 48,587 shares, amortization commenced on March 18, 2016, the beginning of the requisite service period, and, with respect to 48,588 shares, amortization commenced on July 1, 2016, the beginning of the requisite service period.

On April 25, 2016, the Company's Board of Trustees granted a target of 12,632 nonvested share awards with either market or performance conditions to an executive (the "April 25, 2016 Awards"). The actual amounts of the shares awarded with respect to 6,316 of the 12,632 shares will be determined on or about January 1, 2019, based on the performance measurement period of January 1, 2016 through December 31, 2018, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 6,316 of the 12,632 shares will be determined on or about July 1, 2019, based on the performance measurement period of July 1, 2016 through June 30, 2019, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executive will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardee on or about January 1, 2019 and July 1, 2019, respectively. Thereafter, the executive will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 6,316 shares, amortization commenced on April 25, 2016, the beginning of the requisite service period, and with respect to 6,316 shares, amortization commenced on July 1, 2016, the beginning of the requisite service period.

The terms stipulated in the March 18, 2016 and the April 25, 2016 Awards used to determine the total amount of the shares consist of the following three tranches: (1) a comparison of the Company's total return to the total returns' of up to seven companies in a designated peer group of the Company, (2) the Company's actual total return as compared to a Board-established total return goal and (3) a comparison of the Company's return on invested capital to the return on invested capital of up to seven companies in a designated peer group of the Company.

The tranches described in (1) and (2) are nonvested share awards with market conditions. For the March 18, 2016 and the April 25, 2016 Awards, the grant date fair value of the awards with market conditions were estimated by the Company using historical data under the Monte Carlo valuation method provided by a third party consultant. The final values were determined during the second quarter of 2016 with an insignificant cumulative adjustment to compensation cost recorded for the March 18, 2016 Awards. The third tranche is based on "return on invested capital" discussed below, which is a performance condition. The grant date fair values of the tranches with performance conditions were calculated based on the targeted awards, and the valuation is adjusted on a periodic basis.

The capital market assumptions used in the valuations consisted of the following:

- Factors associated with the underlying performance of the Company's share price and shareholder returns over the term of the awards including total share return volatility and risk-free interest.

- Factors associated with the relative performance of the Company's share price and shareholder returns when compared to those companies which compose the index including beta as a means to breakdown total volatility into market-related and company specific volatilities.

- The valuation has been performed in a risk-neutral framework.

Return on invested capital is a performance condition award measurement. The estimated value was calculated based on the initial face value at the date of grant. The valuation will be adjusted on a periodic basis as the estimated number of awards expected to vest is revised.

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The assumptions used were as follows for each performance measure:

	Volatility	Interest Rates	Dividend Yield	Stock Beta	Fair Value of Components of Award	Weighting of Total Awards
April 25, 2016 Awards (performance period starting January 1, 2016)						
Target amounts	26.40 %	1.01 %	N/A	N/A	\$ 18.61	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 23.75	33.30 %
Peer companies	26.40 %	1.01 %	N/A	1.024	\$ 23.63	33.30 %
April 25, 2016 Awards (performance period starting July 1, 2016)						
Target amounts	26.40 %	1.01 %	N/A	N/A	\$ 20.47	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 23.75	33.30 %
Peer companies	26.40 %	1.01 %	N/A	1.024	\$ 26.10	33.30 %
March 18, 2016 Awards (performance period starting January 1, 2016)						
Target amounts	26.40 %	1.00 %	N/A	N/A	\$ 22.23	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 25.14	33.30 %
Peer companies	26.40 %	1.00 %	N/A	1.023	\$ 25.18	33.30 %
March 18, 2016 Awards (performance period starting July 1, 2016)						
Target amounts	26.40 %	1.00 %	N/A	N/A	\$ 21.65	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 25.14	33.30 %
Peer companies	26.40 %	1.00 %	N/A	1.023	\$ 27.81	33.30 %

A summary of the Company's nonvested share awards with either market or performance conditions as of September 30, 2016 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2016	348,587	\$ 33.98
Granted ⁽¹⁾⁽²⁾	121,372	24.74
Vested ⁽²⁾	(155,463)	31.89
Forfeited ⁽²⁾	(38,313)	29.26
Nonvested at September 30, 2016	276,183	\$ 27.36

(1) Amount includes an additional 10,707 shares issued on August 11, 2016 from the January 30, 2013 grant, which were earned in excess of the target amount.

(2) Amounts include 27,570 shares vested, 858 shares earned in excess of target amount, and 34,959 shares forfeited, respectively, upon termination of the former Chief Financial Officer.

As of September 30, 2016 and December 31, 2015, there were \$4,688 and \$5,342, respectively, of total unrecognized compensation costs related to nonvested share awards with market or performance conditions. As of September 30, 2016 and December 31, 2015, these costs were expected to be recognized over a weighted-average period of 1.9 and 1.7 years, respectively. As of September 30, 2016 and December 31, 2015, there were 463,532 and 308,069 share awards with market or performance conditions vested, respectively. Additionally, there were 29,376 and 84,401

nonvested share awards with market or performance conditions earned but nonvested due to a service condition as of September 30, 2016 and December 31, 2015, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with market or performance conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were \$930 and \$2,966 for the three and nine months ended September 30, 2016, respectively, and \$1,154 and \$3,205 for the three and nine months ended September 30, 2015, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, a portion of his nonvested share awards with market or performance conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized compensation costs on his nonvested share awards with market or performance conditions over the estimated remaining service period. On May 6, 2016 and May 9, 2016, a portion of his nonvested share awards with market or

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performance conditions vested, a portion was forfeited and additional shares were earned for awards valued at over 100% of the target, with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) related to his nonvested share awards with market or performance conditions that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was zero and \$96, respectively, for the three and nine months ended September 30, 2016. For the three and nine months ended September 30, 2016, severance expense related to the former Chief Financial Officer's termination totaled zero and \$1,576, respectively, and included cash compensation and benefits, compensation for shares with service conditions and shares with market or performance conditions and cash payments related to dividends on restricted shares that vested.

8.LHL

Substantially all of the Company's revenues are derived from operating revenues generated by the hotels, all of which are leased by LHL.

Other indirect hotel operating expenses consist of the following expenses incurred by the hotels:

	For the three months ended September 30, 2016		For the nine months ended September 30, 2015	
General and administrative	\$26,362	\$26,066	\$78,004	\$75,795
Sales and marketing	18,443	18,445	56,932	56,290
Repairs and maintenance	9,908	10,090	29,655	29,564
Management and incentive fees	11,394	10,570	29,951	29,625
Utilities and insurance	8,914	9,235	25,443	26,341
Franchise fees	2,724	2,802	8,246	7,133
Other expenses	989	862	2,701	2,201
Total other indirect expenses	\$78,734	\$78,070	\$230,932	\$226,949

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As of September 30, 2016, LHL leased all 46 hotels owned by the Company as follows:

Hotel Properties	Location
1. Hotel Amarano Burbank	Burbank, CA
2. L' Auberge Del Mar	Del Mar, CA
3. Hilton San Diego Gaslamp Quarter	San Diego, CA
4. Hotel Solamar	San Diego, CA
5. San Diego Paradise Point Resort and Spa	San Diego, CA
6. The Hilton San Diego Resort and Spa	San Diego, CA
7. Harbor Court Hotel	San Francisco, CA
8. Hotel Triton	San Francisco, CA
9. Hotel Vitale	San Francisco, CA
10. Park Central San Francisco	San Francisco, CA
11. Serrano Hotel	San Francisco, CA
12. The Marker San Francisco	San Francisco, CA
13. Villa Florence	San Francisco, CA
14. Chaminade Resort and Conference Center	Santa Cruz, CA
15. Viceroy Santa Monica	Santa Monica, CA
16. Chamberlain West Hollywood	West Hollywood, CA
17. Le Montrose Suite Hotel	West Hollywood, CA
18. Le Parc Suite Hotel	West Hollywood, CA
19. The Grafton on Sunset	West Hollywood, CA
20. Hotel George	Washington, D.C.
21. Hotel Madera	Washington, D.C.
22. Hotel Palomar, Washington, DC	Washington, D.C.
23. Hotel Rouge	Washington, D.C.
24. Mason & Rook Hotel	Washington, D.C.
25. Sofitel Washington, DC Lafayette Square	Washington, D.C.
26. The Donovan	Washington, D.C.
27. The Liaison Capitol Hill	Washington, D.C.
28. Topaz Hotel	Washington, D.C.
29. Southernmost Beach Resort Key West	Key West, FL
30. The Marker Waterfront Resort	Key West, FL
31. Hotel Chicago	Chicago, IL
32. Westin Michigan Avenue	Chicago, IL
33. Hyatt Regency Boston Harbor	Boston, MA
34. Onyx Hotel	Boston, MA
35. The Liberty Hotel	Boston, MA
36. Westin Copley Place	Boston, MA
37. Gild Hall	New York, NY
38. The Roger	New York, NY
39. Park Central Hotel New York (shared lease with WestHouse Hotel New York)	New York, NY
40. WestHouse Hotel New York	New York, NY
41. The Heathman Hotel	Portland, OR
42. Embassy Suites Philadelphia - Center City	Philadelphia, PA
43. Westin Philadelphia	Philadelphia, PA
44. Lansdowne Resort	Lansdowne, VA
45. Alexis Hotel	Seattle, WA
46. Hotel Deca	Seattle, WA

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9. Income Taxes

Income tax expense (benefit) was comprised of the following for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30, 2016		For the nine months ended September 30, 2015	
LHL's income tax expense (benefit)	\$2,809	\$(463)	\$4,182	\$(231)
Operating Partnership's income tax expense (benefit)	300	(27)	917	447
Total income tax expense (benefit)	\$3,109	\$(490)	\$5,099	\$216

The Company has estimated LHL's income tax expense for the nine months ended September 30, 2016 by applying an estimated combined federal and state effective tax rate of 40.0% to LHL's net income of \$10,060. From time to time, the Company may be subject to federal, state or local tax audits in the normal course of business.

10. Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows:

		Fair Value Measurements at	
		September 30, 2016	December 31, 2015
		Using Significant Other Observable Inputs (Level 2)	
Description	Consolidated Balance Sheet Location		
Derivative interest rate instruments	Prepaid expenses and other assets	\$0	\$ 1,605
Derivative interest rate instruments	Accounts payable and accrued expenses	\$12,001	\$ 1,702

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

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Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$0	\$0	\$80,000	\$80,000
Borrowings under credit facilities	\$0	\$0	\$21,000	\$21,061
Term loans	\$855,000	\$857,364	\$855,000	\$856,038
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$225,000	\$225,234	\$511,294	\$511,786

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 1.8% as of September 30, 2016 and from 1.5% to 4.4% as of December 31, 2015 with a weighted average effective interest rate of 1.5% and 2.1% as of September 30, 2016 and December 31, 2015, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At September 30, 2016 and December 31, 2015, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

11. Earnings Per Common Share

The limited partners' outstanding common units in the Operating Partnership (which may be converted to common shares of beneficial interest) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income or loss would also be added back to net income or loss. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation. Unvested share-based payment awards expected to vest that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders used in the basic and diluted earnings per share calculations. Net income or loss figures are presented net of noncontrolling interests in the earnings per share calculations.

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The computation of basic and diluted earnings per common share is as follows:

	For the three months ended September 30, 2016		For the nine months ended September 30, 2015	
Numerator:				
Net income attributable to common shareholders	\$ 152,070	\$ 44,424	\$ 213,263	\$ 99,927
Dividends paid on unvested restricted shares	(119)	(141)	(371)	(401)
Undistributed earnings attributable to unvested restricted shares	(237)	0	(134)	0
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 151,714	\$ 44,283	\$ 212,758	\$ 99,526
Denominator:				
Weighted average number of common shares - basic	112,811,403	112,731,358	112,781,732	112,702,693
Effect of dilutive securities:				
Compensation-related shares	348,441	405,926	357,165	411,166
Weighted average number of common shares - diluted	113,159,844	113,137,284	113,138,897	113,113,859
Earnings per Common Share - Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 1.34	\$ 0.39	\$ 1.89	\$ 0.88
Earnings per Common Share - Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$ 1.34	\$ 0.39	\$ 1.88	\$ 0.88

12. Supplemental Information to Statements of Cash Flows

	For the nine months ended September 30, 2016		For the nine months ended September 30, 2015	
Interest paid, net of capitalized interest	\$32,320	\$39,911		
Interest capitalized	294	488		
Income taxes paid, net	4,279	3,272		
Increase in distributions payable on common shares	57	8,464		
Increase in distributions payable on preferred shares	2,363	0		
Redemption of common units for common shares	0	3,400		
Write-off of fully amortized debt issuance costs	563	131		
Decrease in accrued capital expenditures	(7,019)	(563)		
Grant of nonvested shares and awards to employees and executives, net	4,793	5,188		
Issuance of common shares for Board of Trustees compensation	480	691		
In conjunction with the sale of property, the Company disposed of the following assets and liabilities:				
Investment in property, net of closing costs	\$ 164,165	\$ 0		
Other assets	4,226	0		
Liabilities	(1,655)	0		
Sale of property	\$ 166,736	\$ 0		

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In conjunction with the acquisition of properties, the Company assumed the following assets and liabilities:

Investment in properties (after credits at closing)	\$0	\$(445,734)
Other assets	0	(1,897)
Liabilities	0	8,474
Acquisition of properties	\$0	\$(439,157)

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13. Subsequent Events

The Company paid the following common and preferred dividends subsequent to September 30, 2016:

Security Type	Dividend per Share/Unit (1)	For the Quarter Ended	Record Date	Payable Date
Common Shares/Units	\$ 0.45	September 30, 2016	September 30, 2016	October 17, 2016
7.5% Series H Preferred Shares	\$ 0.47	September 30, 2016	September 30, 2016	October 17, 2016
6.375% Series I Preferred Shares	\$ 0.40	September 30, 2016	September 30, 2016	October 17, 2016
6.3% Series J Preferred Shares	\$ 0.39	September 30, 2016	September 30, 2016	October 17, 2016

(1) Amounts are rounded to the nearest whole cent for presentation purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I - Item 1 of this report.

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by LaSalle Hotel Properties (the "Company"), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations, are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "may," "plan," "seek," "should," "will" or similar expressions. Forward-looking statements in this report include, among others, statements about the Company's business strategy, including its acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond the Company's control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the hotel industry, including competition for guests and meetings from other hotels and alternative lodging companies, increases in wages, energy costs and other operating costs, potential unionization or union disruption, actual or threatened terrorist attacks, any type of flu or disease-related pandemic and downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- the Company's dependence on third-party managers of its hotels, including its inability to implement strategic business decisions directly;
- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act of 1990, as amended, and similar laws;
- interest rate increases;
- the possible failure of the Company to maintain its qualification as a real estate investment trust ("REIT") as defined in the Internal Revenue Code of 1986, as amended (the "Code") and the risk of changes in laws affecting REITs;
- the possibility of uninsured losses;

risks associated with redevelopment and repositioning projects, including delays and cost overruns;
the risk of a material failure, inadequacy, interruption or security failure of the Company's or the hotel managers' information technology networks and systems; and
the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as updated elsewhere in this report.

Accordingly, there is no assurance that the Company's expectations will be realized. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for the Company to

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predict those events or how they may affect the Company. Except as otherwise required by law, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time they were made, to anticipate future events or trends.

Overview

The Company, a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed REIT as defined in the Code. As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, "LHL"), the Company's wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates. As of September 30, 2016, the Company owned interests in 46 hotels with approximately 11,450 guest rooms located in nine states and the District of Columbia. Each hotel is leased to LHL under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2016 and December 2018. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company's assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at September 30, 2016. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2016.

In addition to measuring the Company's net income (loss), the Company also measures hotel performance by evaluating financial metrics such as room revenue per available room ("RevPAR"), funds from operations attributable to common shareholders and unitholders ("FFO") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company evaluates the hotels in its portfolio and potential acquisitions using these metrics to determine each portfolio hotel's contribution or acquisition hotel's potential contribution toward reaching the Company's goals of providing income to its shareholders through increases in distributable cash flow and increasing long-term total returns to shareholders through appreciation in the value of its common shares. The Company invests in capital improvements throughout the portfolio to continue to increase the competitiveness of its hotels and improve their financial performance. The Company actively seeks to acquire hotel properties, but continues to face significant competition for acquisitions that meet its investment criteria.

During the third quarter of 2016, the Company's hotels continued to operate within a positive, yet slowing, environment. Some of the economic indicators the Company tracks were encouraging, but others elicit caution.

Consumer confidence reached its highest level in nine years and unemployment ended the quarter at 5.0%.

Enplanements have been steady and airline capacity is projected to increase during 2016. In contrast, corporate profits have weakened this year. Similarly, estimates for U.S. GDP growth in 2016 continue to be revised downwardly. The U.S. lodging industry benefited from a positive economic landscape overall in the third quarter, but there were signs of moderation, and the industry RevPAR grew at a rate of 3.3%. During the third quarter, lodging industry demand grew by 1.6% and was offset by a 1.6% supply increase. Industry-wide pricing was moderate, leading to average daily rate ("ADR") growth of 3.4%. The Company's portfolio benefited from the operating environment, and RevPAR increased during the third quarter of 2016 by 4.3%.

For the third quarter of 2016, the Company had a net income applicable to common shareholders of \$152.1 million, or \$1.34 per diluted share. FFO was \$95.7 million, or \$0.84 per diluted share/unit (based on 113,305,067 weighted average shares and units outstanding during the three months ended September 30, 2016) and EBITDA was \$219.1 million. RevPAR for the hotel portfolio was \$224.98, which was an increase of 4.3% compared to the third quarter of 2015. Occupancy grew by 3.9% and ADR increased by 0.4%. During the quarter, the Company's FFO per diluted share/unit and EBITDA increased year-over-year due to improvements in the performance of its hotel portfolio and from the gain on the sale of Indianapolis Marriott Downtown.

Please refer to "Non-GAAP Financial Measures" for a detailed discussion of the Company's use of FFO and EBITDA and a reconciliation of FFO and EBITDA to net income or loss attributable to common shareholders, a measurement computed in accordance with U.S. generally accepted accounting principles ("GAAP").

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Critical Accounting Estimates

Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last month of each quarter. Each quarter, the Company reviews the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

The Company's management has discussed the policy of using estimated hotel operating revenues and expenses with the Audit Committee of its Board of Trustees. The Audit Committee has reviewed the Company's disclosure relating to the estimates in this "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section.

See "Critical Accounting Policies" in the "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for other critical accounting policies and estimates of the Company.

Comparison of the Three Months Ended September 30, 2016 to the Three Months Ended September 30, 2015

The economic environment was positive during the third quarter. Industry demand and supply were the same during the third quarter of 2016 at 1.6% growth. As a result, industry-wide pricing was moderate, leading to ADR growth of 3.4%. Industry occupancy remained flat. RevPAR at the Company's hotels, excluding the Park Central Hotel New York and WestHouse Hotel New York, increased by 1.5% in the quarter compared to the third quarter of 2015, which was driven by a 1.1% occupancy growth and a 0.3% increase in ADR.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, decreased \$1.8 million from \$327.2 million in 2015 to \$325.4 million in 2016. This decrease is due primarily to the July 2016 disposition of the Indianapolis Marriott Downtown, which resulted in a \$10.1 million decrease in hotel operating revenues. This decrease is primarily offset by a \$7.4 million increase from Park Central Hotel New York and WestHouse Hotel New York due to the disruptive Union activity in the prior year. The decrease is further offset by the effects of the moderately improving yet slowing economic environment, which resulted in a 1.5% increase in RevPAR across the portfolio excluding the Park Central Hotel New York, WestHouse Hotel New York and Indianapolis Marriott Downtown, attributable to a 1.1% increase in occupancy, and a 0.3% increase in ADR.

The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

- \$1.3 million increase from Mason & Rook Hotel;
- \$1.2 million increase from Westin Philadelphia; and
- \$1.0 million increase from Southernmost Beach Resort Key West.

These increases are partially offset by a combined \$3.9 million decrease at Park Central San Francisco due to a decrease in food and beverage revenue and lower ADR, The Marker San Francisco due to lower food and beverage

revenue, and Westin Michigan Avenue due to lower food and beverage revenue.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$1.3 million across 38 additional hotels in the portfolio.

Other Income

Other income decreased \$1.0 million from \$2.6 million in 2015 to \$1.6 million in 2016 primarily due to decreased insurance gains from insurance proceeds related to minor property damage at various properties.

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Hotel Operating Expenses

Hotel operating expenses decreased a net \$0.7 million from \$187.6 million in 2015 to \$186.9 million in 2016. This decrease is due primarily to the July 2016 disposition of the Indianapolis Marriott Downtown, which resulted in a \$6.2 million decrease in hotel operating expenses. This decrease is partially offset by a \$2.3 million increase from Park Central Hotel New York and WestHouse Hotel New York due to the disruptive Union activity in the prior year. The decrease is further offset by the increased operating costs associated with higher occupancies at certain properties in the portfolio attributable to the moderately improving yet slowing economic environment.

The following hotels experienced significant increases in total room, food and beverage, other direct and other indirect expenses primarily as a result of increased occupancies at the hotels:

- \$1.1 million increase from Mason & Rook Hotel;
- \$0.4 million increase from San Diego Paradise Point Resort and Spa;
- \$0.3 million increase from Westin Philadelphia;
- \$0.3 million increase from Park Central San Francisco; and
- \$0.3 million increase from Southernmost Beach Resort Key West.

These increases are partially offset by a \$0.8 million decrease related to lower food and beverage expenses at The Marker San Francisco, mirroring the lower revenue.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$1.6 million across the 38 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense increased \$1.8 million from \$46.2 million in 2015 to \$48.0 million in 2016. Depreciation and amortization expense increased a net \$2.9 million across the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity, particularly at the Lansdowne Resort, Mason & Rook Hotel, Westin Michigan Avenue, Hotel Palomar, Washington, DC and The Liberty Hotel. The increase is partially offset by the July 2016 disposition of the Indianapolis Marriott Downtown, which resulted in a \$1.1 million decrease in depreciation and amortization expense.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses decreased \$3.1 million from \$17.0 million in 2015 to \$13.9 million in 2016. Of the decrease, \$1.9 million is the result of the Indianapolis Marriott Downtown July 2016 disposition, as the Company received credits as a part of the expense proration process. Real estate taxes and personal property taxes decreased by a net \$1.0 million due primarily to decreased property values or tax rates at certain properties and successful real estate tax appeals, particularly at the Westin Michigan Avenue. Insurance expense decreased by \$0.2 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$0.1 million from \$4.5 million in 2015 to \$4.6 million in 2016 due primarily to improved operating results. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense decreased \$0.1 million from \$6.2 million in 2015 to \$6.1 million in 2016 due primarily to slightly lower compensation costs which offset increased professional fees.

Acquisition Transaction Costs

Acquisition transaction costs of an immaterial amount in 2015 relate to the placing of the Company's junior mezzanine loan (the "Mezzanine Loan").

Other Expenses

Other expenses decreased \$8.1 million from \$9.1 million in 2015 to \$1.0 million in 2016. Of the decrease, \$4.6 million is attributable to the 2015 disruptive Union activities at two of the Company's New York properties. In addition, management transition

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expenses, severance and pre-opening costs have decreased by \$2.7 million as the Company was transitioning management at four San Francisco properties in 2015. Losses from property damage, which are largely covered by insurance proceeds, and miscellaneous expenses decreased by a combined \$0.8 million in 2016.

Interest Income

Interest income decreased \$1.1 million from \$1.3 million in 2015 to \$0.2 million in 2016 as a result of the sale of the Mezzanine Loan in July 2016.

Interest Expense

Interest expense decreased \$3.0 million from \$13.3 million in 2015 to \$10.3 million in 2016 due to a decrease in the Company's weighted average interest rate and a decrease in the weighted average debt outstanding. The Company's weighted average debt outstanding decreased from \$1,472.8 million in 2015 to \$1,208.1 million in 2016 due primarily to paydowns on the unsecured credit facilities with proceeds from:

- the issuance of the 6.3% Series J Cumulative Redeemable Preferred Shares (the "Series J Preferred Shares") in May 2016;
- the sale of Indianapolis Marriott Downtown in July 2016;
- the sale of the Mezzanine Loan in July 2016; and
- positive operating results from the hotel properties.

The above paydowns were partially offset by the following borrowings:

- additional borrowings to purchase the Mezzanine Loan in July 2015; and
- additional borrowings to finance other capital improvements during 2015 and 2016.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 3.3% in 2015 to 3.0% in 2016. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June 2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which has a rate of 2.28% as of September 30, 2016. This decrease is also attributable to the repayment of the Westin Michigan Avenue 5.75% fixed rate mortgage loan, the Indianapolis Marriott Downtown 5.99% fixed rate mortgage loan and The Roger 6.31% fixed rate mortgage loan in the first quarter of 2016 with borrowings on the Company's senior unsecured credit facility, which has a weighted average rate of 2.17% for the quarter ending September 30, 2016. Interest capitalized on renovations decreased from \$0.2 million in 2015 to \$0.1 million in 2016.

Income Tax Expense

Income tax changed by \$3.6 million from an income tax benefit of \$0.5 million in 2015 to an income tax expense of \$3.1 million in 2016. This change is primarily the result of an increase in LHL's net income before income tax expense of \$6.7 million from \$0.1 million in 2015 to \$6.8 million in 2016 and a minimal impact of the finalization and related adjustments of the 2015 federal and state tax returns during the 2016 period. For the quarter ended September 30, 2016, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 40.0%.

Net Gain on Sale of Property and Sale of Note Receivable

The net gain on sale of property and sale of note receivable is \$104.5 million which consists of a \$104.8 million gain relating to the sale of the Indianapolis Marriott Downtown on July 14, 2016, partially offset by \$0.3 million of costs associated with the sale of the Company's Mezzanine Loan on July 8, 2016.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At September 30, 2016, third party limited partners held 0.1% of the common units in the Operating Partnership.

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Distributions to Preferred Shareholders

Distributions to preferred shareholders increased \$2.4 million from \$3.0 million in 2015 to \$5.4 million in 2016 due to distributions on the Series J Preferred Shares, which were issued on May 25, 2016.

Comparison of the Nine Months Ended September 30, 2016 to the Nine Months Ended September 30, 2015

Industry travel was stronger during the nine months ended September 30, 2016 compared to the same period of the prior year. Industry demand and supply grew at the same rate, which kept industry occupancy at a high level, leading to moderate pricing power and ADR growth during the period. With respect to the Company's hotels, occupancy grew by 2.4% during the nine months ended September 30, 2016 and ADR increased 0.1%, which resulted in RevPAR improvement of 2.4% year-over-year.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, increased \$16.3 million from \$916.2 million in 2015 to \$932.5 million in 2016. This increase is due primarily to the hotel operating revenues generated from the 2015 hotel acquisitions, which consist of the acquisitions of Park Central San Francisco and The Marker Waterfront Resort (collectively, the "2015 Acquisition Properties"). The 2015 Acquisition Properties, which are not comparable year-over-year, contributed \$10.1 million to the increase in hotel operating revenues. Additionally, the effects of the moderately improving yet slowing economic environment, which resulted in a 1.5% increase in RevPAR across the portfolio excluding the Park Central Hotel New York, WestHouse Hotel New York and Indianapolis Marriott Downtown, attributable to a 0.6% increase in occupancy, and a 0.9% increase in ADR, contributed to the increase in hotel operating revenues.

The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

\$2.9 million increase from Westin Philadelphia;

\$2.2 million increase from The Grafton on Sunset; and

\$1.8 million increase from Southernmost Beach Resort Key West.

Park Central Hotel New York and WestHouse Hotel New York experienced an increase of \$9.2 million over the prior year mainly due to the disruptive Union activity in 2015.

These increases are partially offset by a combined \$11.2 million decrease, \$6.5 million of which is due to the July 2016 disposition of the Indianapolis Marriott Downtown. The remaining \$4.7 million is due to lower food and beverage revenue at The Marker San Francisco and somewhat softer demand and slightly lower group business at San Diego Paradise Point Resort and Spa.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$1.3 million across 37 additional hotels in the portfolio.

Other Income

Other income decreased \$0.1 million from \$5.7 million in 2015 to \$5.6 million in 2016 primarily due to decreased insurance gains from insurance proceeds related to minor property damage at various properties.

Hotel Operating Expenses

Hotel operating expenses increased a net \$7.8 million from \$544.2 million in 2015 to \$552.0 million in 2016. This overall increase is primarily due to \$4.8 million from the results of the 2015 Acquisition Properties, which are not comparable year-over-year. To a lesser extent, the increase is a result of increased operating costs associated with higher occupancies at certain properties in the portfolio attributable to the moderately improving yet slowing economic environment.

The following hotels experienced significant increases in total room, food and beverage, other direct and other indirect expenses primarily as a result of increased occupancies at the hotels:

\$1.1 million increase from Westin Philadelphia; and

\$1.1 million increase from Westin Copley Place.

In addition to the above increases, Park Central Hotel New York and WestHouse Hotel New York had a total increase of \$4.5 million, which corresponds to the significant revenue increase as a result of the disruptive Union activity at the hotels in 2015.

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These increases are partially offset by a combined \$6.3 million decrease, \$4.9 million of which relates to the July 2016 disposition of the Indianapolis Marriott Downtown, and the remaining \$1.4 million due to lower food and beverage expenses at The Marker San Francisco, mirroring the lower revenue.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$2.6 million across the 39 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense increased \$9.5 million from \$135.0 million in 2015 to \$144.5 million in 2016. Of the increase, \$1.5 million is attributable to the 2015 Acquisition Properties, which are not comparable year-over-year. Depreciation and amortization expense increased a net \$9.1 million across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity, particularly at the Westin Michigan Avenue, Hotel Palomar, Washington, DC and The Liberty Hotel. The increase is partially offset by the July 2016 disposition of the Indianapolis Marriott Downtown, which resulted in a \$1.1 million decrease in depreciation and amortization expense.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses decreased \$2.3 million from \$49.3 million in 2015 to \$47.0 million in 2016. Of the decrease, \$1.4 million is the result of the Indianapolis Marriott Downtown July 2016 disposition, as the Company received credits as part of the expense proration process. Real estate taxes and personal property taxes decreased by a net \$0.8 million across the remaining hotels in the portfolio due primarily to decreased property values or tax rates at certain properties, successful real estate tax appeals and a \$0.5 million increase in real estate taxes capitalized as part of the various renovation projects. The decrease is partially offset by a \$0.3 million increase from the 2015 Acquisition Properties, which are not comparable year-over-year. Insurance expense decreased by \$0.4 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$0.3 million from \$12.2 million in 2015 to \$12.5 million in 2016 due primarily to improved operating results. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense increased \$0.6 million from \$18.9 million in 2015 to \$19.5 million in 2016 due to a \$1.6 million charge in 2016 associated with the departure of the Company's former Chief Financial Officer partially offset by a \$1.0 million decrease in other compensation costs.

Acquisition Transaction Costs

Acquisition transaction costs of \$0.5 million in 2015 relate to the purchase of the 2015 Acquisition Properties and the placing of the Mezzanine Loan.

Other Expenses

Other expenses decreased \$7.3 million from \$12.8 million in 2015 to \$5.5 million in 2016. Of the decrease, \$4.6 million is attributable to the 2015 disruptive Union activities at two of the Company's New York properties. In addition, management transition expenses, severance and pre-opening costs have decreased by \$2.3 million as the Company was transitioning management at four San Francisco properties in 2015. This decrease was slightly offset by transition expenses incurred in 2016 including the grand opening of the Mason & Rook Hotel. Miscellaneous and retail lease expenses also decreased by \$0.4 million in 2016.

Interest Income

Interest income increased \$2.2 million from \$1.3 in 2015 to \$3.5 million in 2016 as a result of the interest income earned on the Company's Mezzanine Loan secured by pledges of equity interests in the entities that own the hotel

properties, Shutters on the Beach and Casa Del Mar, which was acquired in July 2015. The Company sold the Mezzanine Loan in July 2016.

Interest Expense

Interest expense decreased \$7.1 million from \$40.8 million in 2015 to \$33.7 million in 2016 due to a decrease in the Company's weighted average interest rate and a slight decrease in the weighted average debt outstanding. The Company's weighted average

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debt outstanding decreased from \$1,398.7 million in 2015 to \$1,396.4 million in 2016 due primarily to paydowns on the unsecured credit facilities with proceeds from the following:

- the issuance of the Series J Preferred Shares in May 2016;
- the sale of Indianapolis Marriott Downtown in July 2016;
- the sale of the Mezzanine Loan in July 2016; and
- positive operating results from the hotel properties.

The above paydowns were partially offset by borrowings for the following:

- additional borrowings to purchase the 2015 Acquisition Properties and the Mezzanine Loan in July 2015; and
- additional borrowings to finance other capital improvements during 2015 and 2016.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 3.6% in 2015 to 2.9% in 2016. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June 2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which has a rate of 2.28% as of September 30, 2016. This decrease is also attributable to the repayment of the Westin Michigan Avenue 5.75% fixed rate mortgage loan, the Indianapolis Marriott Downtown 5.99% fixed rate mortgage loan and The Roger 6.31% fixed rate mortgage loan in the first quarter of 2016 with borrowings on the Company's senior unsecured credit facility, which has a weighted average rate of 2.14% for the nine months ending September 30, 2016. Interest capitalized on renovations decreased from \$0.5 million in 2015 to \$0.3 million in 2016.

Income Tax Expense

Income tax expense increased \$4.9 million from \$0.2 million in 2015 to \$5.1 million in 2016. This increase is primarily the result of an increase in LHL's net income before income tax expense of \$9.5 million from \$0.6 million in 2015 to \$10.1 million in 2016 and a minimal impact of the finalization and related adjustments of the 2015 federal and state tax returns during the 2016 period. For the nine months ended September 30, 2016, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 40.0%.

Net Gain on Sale of Property and Sale of Note Receivable

The net gain on sale of property and sale of note receivable is \$104.5 million which consists of a \$104.8 million gain relating to the sale of the Indianapolis Marriott Downtown on July 14, 2016, partially offset by \$0.3 million of costs associated with the sale of the Company's Mezzanine Loan on July 8, 2016.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At September 30, 2016, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders increased \$3.7 million from \$9.1 million in 2015 to \$12.8 million in 2016 due to distributions on the Series J Preferred Shares, which were issued on May 25, 2016.

Non-GAAP Financial Measures

FFO and EBITDA

The Company considers the non-GAAP measures of FFO and EBITDA to be key supplemental measures of the Company's performance and should be considered along with, but not as alternatives to, net income or loss as a measure of the Company's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO and EBITDA to be helpful in evaluating a real estate company's operations.

The White Paper on FFO approved by the National Association of Real Estate Investment Trusts ("NAREIT") in April 2002, as revised in 2011, defines FFO as net income or loss (computed in accordance with GAAP), excluding gains or losses from sales

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of properties and items classified by GAAP as extraordinary, plus real estate-related depreciation and amortization and impairment writedowns, and after comparable adjustments for the Company's portion of these items related to unconsolidated entities and joint ventures. The Company computes FFO consistent with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company. With respect to FFO, the Company believes that excluding the effect of extraordinary items, real estate-related depreciation and amortization and impairments, and the portion of these items related to unconsolidated entities, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance, can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. However, FFO may not be helpful when comparing the Company to non-REITs.

With respect to EBITDA, the Company believes that excluding the effect of non-operating expenses and non-cash charges, and the portion of these items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and amortization, and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrues directly to common shareholders.

FFO and EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO and EBITDA are not measures of the Company's liquidity, nor are FFO and EBITDA indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been and will be incurred. FFO and EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments and uncertainties. To compensate for this, management considers the impact of these excluded items to the extent they are material to operating decisions or the evaluation of the Company's operating performance.

The following is a reconciliation between net income attributable to common shareholders and FFO attributable to common shareholders and unitholders for the three and nine months ended September 30, 2016 and 2015 (in thousands, except share and unit data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income attributable to common shareholders	\$152,070	\$ 44,424	\$213,263	\$ 99,927
Depreciation	47,888	46,080	144,088	134,622
Amortization of deferred lease costs	82	72	244	219
Noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	8	8
Noncontrolling interests of common units in Operating Partnership	203	75	299	229
Less: Gain on sale of property less costs associated with sale of note receivable	(104,549)	0	(104,549)	0
FFO attributable to common shareholders and unitholders	\$95,694	\$ 90,651	\$253,353	\$ 235,005
Weighted average number of common shares and units outstanding:				

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Basic	112,956,626	112,876,581	112,926,955	112,920,964
Diluted	113,305,067	113,282,507	113,284,120	113,332,130

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The following is a reconciliation between net income attributable to common shareholders and EBITDA for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income attributable to common shareholders	\$152,070	\$44,424	\$213,263	\$99,927
Interest expense	10,332	13,250	33,681	40,790
Income tax expense (benefit)	3,109	(490)	5,099	216
Depreciation and amortization	48,022	46,208	144,491	135,002
Noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	8	8
Noncontrolling interests of common units in Operating Partnership	203	75	299	229
Distributions to preferred shareholders	5,405	3,043	12,802	9,127
EBITDA ⁽¹⁾	\$219,141	\$106,510	\$409,643	\$285,299

EBITDA includes the gain on sale of Indianapolis Marriott Downtown of \$104.8 million for the three and nine

⁽¹⁾ months ended September 30, 2016, offset by \$0.3 million for the three and nine months ended September 30, 2016 related to costs associated with the sale of the Mezzanine Loan.

Off-Balance Sheet Arrangements

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of September 30, 2016, the Company held a total of \$15.2 million of restricted cash reserves, \$13.3 million of which was available for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

The Company has no other off-balance sheet arrangements.

Liquidity and Capital Resources

The Company's principal source of cash to meet its cash requirements, including distributions to shareholders, is the operating cash flow from the Company's hotels. Additional sources of cash are the Company's senior unsecured credit facility, LHL's unsecured credit facility, additional unsecured financing, secured financing on one or all of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement) as of September 30, 2016, the sale of one or more properties (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership.

LHL is a wholly owned subsidiary of the Operating Partnership. Payments to the Operating Partnership are required pursuant to the terms of the lease agreements between LHL and the Operating Partnership relating to the properties owned by the Operating Partnership and leased by LHL. LHL's ability to make rent payments to the Operating Partnership and the Company's liquidity, including its ability to make distributions to shareholders, are dependent on the lessees' ability to generate sufficient cash flow from the operation of the hotels.

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Debt Summary

Debt as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

			Balance Outstanding as of	
Debt	Interest Rate	Maturity Date	September 30, 2016	December 31, 2015
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$0	\$ 21,000
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			0	21,000
Term loans				
Second Term Loan	Floating/Fixed ^(c)	January 2019	300,000	300,000
Third Term Loan	Floating/Fixed ^(c)	January 2021	555,000	555,000
Debt issuance costs, net			(2,382)	(2,797)
Total term loans, net of unamortized debt issuance costs			852,618	852,203
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(55)	(184)
Total bonds payable, net of unamortized debt issuance costs			42,445	42,316
Mortgage loans				
Westin Michigan Avenue	5.75%	- ^(e)	0	131,262
Indianapolis Marriott Downtown	5.99%	- ^(e)	0	96,097
The Roger	6.31%	- ^(f)	0	58,935
Westin Copley Place	Floating ^(g)	August 2018 ^(g)	225,000	225,000
Debt issuance costs, net			(1,739)	(2,490)
Total mortgage loans, net of unamortized debt issuance costs			223,261	508,804
Total debt			\$ 1,118,324	\$ 1,424,323

Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no

^(a) borrowings outstanding at September 30, 2016. As of December 31, 2015, the rate, including the applicable margin, for the Company's outstanding LIBOR borrowing of \$21,000 was 2.13%. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or ^(b) (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2016 and December 31, 2015. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

^(c) Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into separate interest rate swap agreements for the full seven-year term of the First Term Loan (as defined below) and a five-year term ending in August 2017 for the Second Term Loan (as defined below), resulting in fixed all-in interest rates. On November 5, 2015, the Company repaid the First Term Loan and entered into the Third Term Loan (as defined below). The Company entered into separate interest rate swap agreements with an aggregate notional amount of \$377,500 for the full term of the Third Term Loan. The interest rate swaps for the First Term

Loan continue to be in place and were redesignated as hedging instruments through May 2019 for the Third Term Loan. At September 30, 2016 and December 31, 2015, the fixed all-in interest rates for the Second Term Loan and Third Term Loan were 2.38% and 2.95%, respectively, at the Company's current leverage ratio (as defined in the swap agreements).

The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association that were extended to September 2017. The letters of credit have two one-year extension options, one of which was exercised in July 2016, and are secured by the Hyatt Regency Boston Harbor. The letters of credit cannot be extended beyond the

(d) Massport Bonds' maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2016 were 0.88% and 0.89% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2015 were 0.39% and 0.02% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

(e) The Company repaid the mortgage loans on January 4, 2016 through borrowings on its senior unsecured credit facility.

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- (f) The Company repaid the mortgage loan on February 11, 2016 through borrowings on its senior unsecured credit facility.

The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging

- (g) from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place's net cash flow (as defined in the loan agreement). The interest rate as of September 30, 2016 was LIBOR plus 1.75%, which equaled 2.28%.

The interest rate as of December 31, 2015 was LIBOR plus 1.75%, which equaled 2.09%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	For the three months ended September 30, 2016		For the nine months ended September 30, 2016	
	2015		2015	
Interest Expense:				
Interest incurred	\$9,552	\$12,735	\$31,421	\$39,479
Amortization of debt issuance costs	841	703	2,554	1,799
Capitalized interest	(61)	(188)	(294)	(488)
Interest expense	\$10,332	\$13,250	\$33,681	\$40,790

Weighted Average Interest Rates for Unswapped

Variable Rate Debt:

Senior unsecured credit facility	2.17	%	1.89	%	2.14	%	1.89	%
LHL unsecured credit facility	N/A		1.90	%	2.13	%	1.88	%
Massport Bonds	0.55	%	0.05	%	0.36	%	0.06	%
Mortgage loan (Westin Copley Place)	2.25	%	2.20	%	2.20	%	2.20	%

Credit Facilities

On January 8, 2014, the Company refinanced its \$750.0 million senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2018, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of \$750.0 million, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments up to \$1.05 billion. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility. On January 8, 2014, LHL also refinanced its \$25.0 million unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 8, 2018, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL credit facility.

The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Term Loans

On May 16, 2012, the Company entered into a \$177.5 million unsecured term loan (the "First Term Loan") with a seven-year term maturing on May 16, 2019. The First Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate. On November 5, 2015, the Company repaid the First Term Loan and redesignated the interest rate swaps as hedging instruments for the Third Term Loan as described below.

On January 8, 2014, the Company refinanced its \$300.0 million unsecured term loan (the "Second Term Loan"). The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender

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commitments, allowing for total commitments up to \$500.0 million. The Second Term Loan has a five-year term maturing on January 8, 2019 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2016, through August 2, 2017 (see "Derivative and Hedging Activities" below).

On November 5, 2015, the Company entered into a \$555.0 million unsecured term loan (the "Third Term Loan") with a five-year term maturing on January 29, 2021. The Third Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments up to \$700.0 million. The Third Term Loan bears interest at a variable rate, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.95% at September 30, 2016 through May 16, 2019 for \$177.5 million of the Third Term Loan and through January 29, 2021 for the remaining \$377.5 million of the Third Term Loan (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict the Company's ability to make distributions or other payments to its shareholders upon events of default.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCL") related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company's variable rate debt. Effective May 16, 2012, the Company entered into three interest rate swap agreements with an aggregate notional amount of \$177.5 million for the First Term Loan's full seven-year term, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements). As discussed above, the First Term Loan was repaid on November 5, 2015. The interest rate swaps for the First Term Loan continue to be in place and are designated as hedging instruments for the Third Term Loan. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300.0 million for the Second Term Loan through August 2, 2017, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at September 30, 2016. Effective November 5, 2015, the Company entered into seven interest rate swap agreements with an aggregate notional amount of \$377.5 million for the Third Term Loan's full five-year term, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.95% at September 30, 2016. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following tables present the effect of derivative instruments on the Company's consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2016 and 2015 (in thousands):

Amount of Gain (Loss)	Location of Loss	Amount of Loss
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	Recognized in OCI on Derivative Instruments (Effective Portion) For the three months ended September 30, 2016	2015	Reclassified from AOCL into Net Income (Effective Portion) For the three months ended September 30, 2016	Reclassified from AOCL into Net Income (Effective Portion) For the three months ended September 30, 2015
Derivatives in cash flow hedging relationships:				
Interest rate swaps	\$3,172	\$(4,245)	Interest expense	\$1,637 \$1,071

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Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion) For the nine months ended September 30, 2016 2015	Location of Loss Reclassified from AOCL into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Net Income (Effective Portion) For the nine months ended September 30, 2016 2015
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Derivatives in cash
flow hedging
relationships:

Interest rate swaps	\$(17,051)	\$(8,617)	Interest expense	\$5,147	\$3,210
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During the nine months ended September 30, 2016 and 2015, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2016, there was \$12.0 million in cumulative unrealized loss of which \$12.0 million was included in AOCL and an immaterial amount was attributable to noncontrolling interests. As of December 31, 2015, there was \$0.1 million in cumulative unrealized loss of which \$0.1 million was included in AOCL and zero was attributable to noncontrolling interests. The Company expects that approximately \$6.2 million will be reclassified from AOCL and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2016.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

On January 4, 2016, the Company repaid without fee or penalty the Westin Michigan Avenue mortgage loan in the amount of \$131.3 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in April 2016.

On January 4, 2016, the Company repaid without fee or penalty the Indianapolis Marriott Downtown mortgage loan in the amount of \$96.1 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in July 2016.

On February 11, 2016, the Company repaid without fee or penalty The Roger mortgage loan in the amount of \$58.8 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in August 2016.

The Company's mortgage loans contain debt service coverage ratio tests related to the mortgaged properties. If the debt service coverage ratio for a specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows will be directed to the lender ("cash trap") until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

Financial Covenants

Failure of the Company to comply with the financial covenants contained in its credit facilities, term loans and non-recourse secured mortgages could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates the financial covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to its shareholders.

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A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of September 30, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage loan.

Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows (in thousands):

		Fair Value Measurements at	
		September 30, 2016	December 31, 2015
		Using Significant Other Observable Inputs (Level 2)	
Description	Consolidated Balance Sheet Location		
Derivative interest rate instruments	Prepaid expenses and other assets	\$0	\$ 1,605
Derivative interest rate instruments	Accounts payable and accrued expenses	\$12,001	\$ 1,702

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments

are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

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The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$0	\$0	\$80,000	\$80,000
Borrowings under credit facilities	\$0	\$0	\$21,000	\$21,061
Term loans	\$855,000	\$857,364	\$855,000	\$856,038
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$225,000	\$225,234	\$511,294	\$511,786

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 1.8% as of September 30, 2016 and from 1.5% to 4.4% as of December 31, 2015 with a weighted average effective interest rate of 1.5% and 2.1% as of September 30, 2016 and December 31, 2015, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At September 30, 2016 and December 31, 2015, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

Equity Repurchases and Issuances

The Company's Board of Trustees previously authorized a share repurchase program (the "Repurchase Program") to acquire up to \$100.0 million of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of September 30, 2016, the Company had availability under the Repurchase Program to acquire up to \$69.8 million of common shares of beneficial interest. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

On May 25, 2016, the Company issued 6,000,000 Series J Preferred Shares, \$0.01 par value per share (liquidation preference \$25.00 per share), at a public offering price of \$25.00 per share and received net proceeds, after deducting underwriting discounts and other offering costs, of \$145.1 million. The net proceeds were used to pay down amounts outstanding under the Company's senior unsecured credit facility, and for general corporate purposes.

Sources and Uses of Cash

As of September 30, 2016, the Company had \$135.0 million of cash and cash equivalents and \$15.2 million of restricted cash reserves, \$13.3 million of which was available for future capital expenditures. Additionally, the Company had \$747.5 million available under the Company's senior unsecured credit facility, with \$2.5 million reserved for outstanding letters of credit, and \$25.0 million available under LHL's unsecured credit facility.

Net cash provided by operating activities was \$276.3 million for the nine months ended September 30, 2016 primarily due to the operations of the hotels, which were partially offset by payments for real estate taxes, personal property taxes, insurance and ground rent.

Net cash provided by investing activities was \$181.0 million for the nine months ended September 30, 2016 primarily due to proceeds from the sale of the Mezzanine Loan and the sale of Indianapolis Marriott Downtown, partially offset by outflows for improvements and additions at the hotels.

Net cash used in financing activities was \$328.1 million for the nine months ended September 30, 2016 primarily due to net repayments under the credit facilities, mortgage loan repayments, payment of distributions to the common shareholders and unitholders and payment of distributions to preferred shareholders, partially offset by net proceeds from the preferred share offering.

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The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements, distributions on the preferred shares and the minimum distribution required to maintain the Company's REIT qualification under the Code. The Company anticipates that these needs will be met with available cash on hand, cash flows provided by operating activities, borrowings under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company also considers capital improvements and property acquisitions as short-term needs that will be funded either with cash flows provided by operating activities, utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties) or the issuance of additional equity securities.

The Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), estimated cash flows from operations, debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company expects to acquire or develop additional hotel properties only as suitable opportunities arise, and the Company will not undertake acquisition or development of properties unless stringent acquisition or development criteria have been achieved.

Reserve Funds

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the operating agreements. Please refer to "Off-Balance Sheet Arrangements" for a discussion of the Company's reserve funds.

Contractual Obligations

The following is a summary of the Company's obligations and commitments as of September 30, 2016 (in thousands):

Obligations and Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Mortgage loan	\$225,000	\$0	\$ 225,000	\$ 0	\$ 0
Mortgage loan interest ⁽¹⁾	10,146	5,201	4,945	0	0
Borrowings under credit facilities ⁽²⁾	0	0	0	0	0
Credit facilities interest ⁽²⁾	0	0	0	0	0
Ground rents ⁽³⁾	656,971	12,993	26,359	27,115	590,504
Massport Bonds ⁽²⁾	42,500	0	42,500	0	0
Massport Bonds interest ⁽²⁾	534	378	156	0	0

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Term loans ⁽⁴⁾	855,000	0	300,000	555,000	0
Term loans interest ⁽⁴⁾	83,197	22,645	40,774	19,778	0
Purchase commitments ⁽⁵⁾					
Purchase orders and letters of commitment	31,780	31,780	0	0	0
Total obligations and commitments	\$1,905,128	\$72,997	\$ 639,734	\$ 601,893	\$ 590,504

⁽¹⁾ Interest expense is calculated based on the variable rate as of September 30, 2016 for Westin Copley Place.

⁽²⁾ Interest expense, if applicable, is calculated based on the variable rate as of September 30, 2016.

⁽³⁾ Amounts calculated based on the annual minimum future lease payments that extend through the term of the lease. Ground rents may be subject to adjustments based on future interest rates and hotel performance.

The term loans bear interest at floating rates equal to LIBOR plus applicable margins. The Company entered into ⁽⁴⁾ separate interest rate swap agreements for the Second Term Loan, resulting in a fixed all-in interest rate of 2.38%, at the Company's

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current leverage ratio (as defined in the agreements) through August 2, 2017, the interest rate swaps' maturity date. The Company entered into separate interest rate swap agreements for the Third Term Loan, resulting in a fixed all-in interest rate of 2.95% at the Company's current leverage ratio (as defined in the agreements). The \$377.5 million portion of the Third Term Loan is fixed through its maturity date of January 29, 2021 and the \$177.5 million portion of the Third Term Loan is fixed through May 16, 2019, the interest rate swaps' maturity date. It is assumed that the outstanding debt as of September 30, 2016 will be repaid upon maturity with fixed interest-only payments through the swapped periods and interest calculated based on the variable rate as of September 30, 2016 for the unswapped period of the term loans.

As of September 30, 2016, purchase orders and letters of commitment totaling approximately \$31.8 million had⁽⁵⁾ been issued for renovations at the properties. The Company has committed to these projects and anticipates making similar arrangements in the future with the existing properties or any future properties that it may acquire.

The Hotels

The following table sets forth pro forma historical comparative information with respect to occupancy, ADR and RevPAR for the total hotel portfolio for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30,			For the nine months ended September 30,			
	2016	2015	Variance	2016	2015	Variance	
Occupancy	89.5	% 86.2	% 3.9	% 85.0	% 83.0	% 2.4	%
ADR	\$251.26	\$250.29	0.4	\$244.36	\$244.20	0.1	%
RevPAR	\$224.98	\$215.77	4.3	\$207.72	\$202.79	2.4	%

For presentation of comparable information, for the nine months ended September 30, 2016 and 2015, the hotel statistics reflect pro forma adjustments to include the results of operations of the Park Central San Francisco and The Marker Waterfront Resort under previous ownership for the comparable period in 2015, and exclude the Mason & Rook Hotel for the period the hotel was closed for renovation during the first quarter of 2016 and the comparable period in 2015. The Indianapolis Marriott Downtown is excluded from all periods presented due to its sale on July 14, 2016.

Inflation

The Company relies entirely on the performance of the hotels and their ability to increase revenues to keep pace with inflation. The hotel operators can change room rates quickly, but competitive pressures may limit the hotel operators' abilities to raise rates faster than inflation or even at the same rate.

The Company's expenses (primarily real estate taxes, property and casualty insurance, administrative expenses and hotel operating expenses) are subject to inflation. These expenses are expected to grow at the general rate of inflation, except for energy costs, liability insurance, property taxes (due to increased rates and periodic reassessments), employee benefits and some wages, which are expected to increase at rates higher than inflation.

Seasonality

The Company's hotels' operations historically have been seasonal. Taken together, the hotels maintain higher occupancy rates during the second and third quarters of each year. These seasonality patterns can be expected to cause fluctuations in the quarterly hotel operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from changes in interest rates. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring the Company's variable rate debt and converting such debt to fixed rates when the Company deems such conversion advantageous. From time to time, the Company may enter into interest rate swap agreements or other interest rate

hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose the Company to the risks that the other parties to the agreements will not perform, the Company could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under GAAP guidance. As of September 30, 2016, \$267.5 million of the Company's aggregate indebtedness (23.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the Second Term Loan and Third Term Loan since the Company hedged its variable interest rates to fixed interest rates.

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If market rates of interest on the Company's variable rate long-term debt fluctuate by 0.25%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by \$0.7 million annually. This assumes that the amount outstanding under the Company's variable rate debt remains at \$267.5 million, the balance as of September 30, 2016.

Item 4. Controls and Procedures

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of September 30, 2016. There were no changes to the Company's internal control over financial reporting during the third quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and its subsequent Quarterly Reports on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
July 1, 2016 - July 31, 2016	—	\$ —	—	\$ —
August 1, 2016 - August 31, 2016	19,745	\$ 27.77	—	\$ —
September 1, 2016 - September 30, 2016	—	\$ —	—	\$ —
Total	19,745	\$ 27.77	—	\$69,807,000

Reflects shares surrendered to the Company for payment of tax withholding obligations in connection with the vesting of restricted shares. The average price paid reflects the average market value of shares withheld for tax purposes.

(2) On August 29, 2011, the Company announced its Board of Trustees had authorized the Repurchase Program to acquire up to \$100.0 million of the Company's common shares of beneficial interest. The Company cumulatively repurchased \$30.2 million of common shares of beneficial interest pursuant to the Repurchase Program through

September 30, 2016. As of September 30, 2016, the Company had availability under the Repurchase Program to acquire up to \$69.8 million of common shares of beneficial interest. The authorization did not include specific price targets or an expiration date. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
101	The following financial statements from LaSalle Hotel Properties' Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed on October 19, 2016, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LASALLE HOTEL PROPERTIES

Date: October 19, 2016 BY: /s/ KENNETH G. FULLER

Kenneth G. Fuller

Executive Vice President

and Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)

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Exhibit Index

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