Chatham Lodging Trust
Form 10-K
February 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2018
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: 001-34693

CHATHAM LODGING TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**27-1200777**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
222 Lakeview Avenue, Suite 200	
West Palm Beach, Florida	**33401**
(Address of Principal Executive Offices)	**(Zip Code)**

(561) 802-4477
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Beneficial	**New York Stock Exchange**

Interest, par value $0.01 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No
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. x 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). x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
The aggregate market value of the 44,829,359 common shares of beneficial interest held by non-affiliates of the registrant was $951,278,998 based on the closing sale price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2018.
The number of common shares of beneficial interest outstanding as of February 21, 2019 wa

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission on or before May 15, 2019) are incorporated by reference into this Annual Report on Form 10-K in response to Part III hereof.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), and as such may involve known and unknown risks, uncertainties, assumptions and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words, such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity," or similar expressions, whether in the negative or affirmative. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

•our business and investment strategy;
•our forecasted operating results;
•completion of hotel acquisitions;
•our ability to obtain future financing arrangements;
•our expected leverage levels;
•our understanding of our competition;
•market and lodging industry trends and expectations;
•our investment in joint ventures;
•anticipated capital expenditures; and
•our ability to maintain our qualification as a real estate investment trust ("REIT") for federal income tax purposes.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information available to us at the time the forward-looking statements are made. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, prospects, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks when you make an investment decision concerning our common shares. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

•the factors included in this report, including those set forth under the sections titled “Business,” Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in other reports that we file with the United States Securities and Exchange Commission ("SEC"), or in other documents that we publicly disseminate;
•general volatility of the financial markets and the market price of our securities;
•performance of the lodging industry in general;
•business interruptions due to cyber attacks;
•impacts on our business of a prolonged government shutdown;
•changes in our business or investment strategy;
•availability, terms and deployment of capital;
•availability of and our ability to attract and retain qualified personnel;
•our leverage levels;
•our capital expenditures;
•changes in our industry and the markets in which we operate, interest rates or the general U.S. or international economy;
•our ability to maintain our qualification as a REIT for federal income tax purposes; and
•the degree and nature of our competition.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law.

PART I
Item 1. Business

Dollar amounts presented in this Item 1 are in thousands, except per share data.

Overview

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust on October 26, 2009. We elected to be taxed as a REIT for federal income tax purposes commencing with our 2010 taxable year. The Company is internally-managed and was organized to invest primarily in upscale extended-stay and premium-branded select-service hotels.

We had no operations prior to the consummation of our initial public offering ("IPO") in April 2010. The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all of its operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership ("common units"). Certain of the employees of the Company hold vested and unvested long-term incentive plan units in the Operating Partnership ("LTIP Units"), which are presented as non-controlling interests on our consolidated balance sheets.

In January 2014, the Company established a $25 million dividend reinvestment and stock purchase plan (the "Prior DRSPP"). We filed a new $50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSPP" and together with the Prior DRSPP, the "DRSPPs") on December 28, 2017 to replace the prior program. Under the DRSPPs, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectuses for the DRSPPs. During the year ended December 31, 2018, we issued 766,574 shares under the New DRSPP at a weighted average price of $22.08, which generated $16.9 million of proceeds. As of December 31, 2018 and December 31, 2017, respectively, we had issued 1,508,046 and 741,730 shares under the DRSPPs at a weighted average price of $21.55 and $21.00 per share, respectively. As of December 31, 2018, there were common shares having a maximum aggregate sales price of approximately $32.5 million available for issuance under the New DRSPP.

In January 2014, the Company established an At the Market Equity Offering ("Prior ATM Plan") whereby, from time to time, we may publicly offer and sell our common shares having an aggregate maximum offering price of up to $50 million by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933. We filed a $100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor Fitzgerald & Co. ("Cantor"), Barclays Capital Inc. ("Barclays"), Robert W. Baird & Co. Incorporated ("Baird"), BTIG, LLC ("BTIG"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the year ended December 31, 2018, we issued 350,975 shares under the ATM Plan at a weighted average price of $21.55, which generated $7.6 million of proceeds. As of December 31, 2018 and December 31, 2017, respectively, we had issued 2,498,670 and 2,147,695 shares under the ATM Plans at a weighted average price of $21.83 and $21.87 per share, respectively, in addition to the offerings discussed above. As of December 31, 2018, there were common shares having a maximum aggregate sales price of approximately $92.4 million available for issuance under the ATM Plan.

As of December 31, 2018, the Company owned 42 hotels with an aggregate of 6,283 rooms located in 15 states and the District of Columbia. As of December 31, 2018, the Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with affiliates of Colony Capital, Inc. ("CLNY"), which owns 47 hotels acquired from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management (“Cerberus”), comprising an aggregate of 6,098 rooms and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which owns 48 hotels acquired from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes use the term "JVs", which refers collectively to the NewINK JV and the Inland JV.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by the Company’s taxable REIT subsidiary (“TRS”) holding company. The Company indirectly (i) owns its 10.3% interest in the 47 NewINK JV hotels and (ii) owns its 10.0% interest in the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.
The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2018, Island Hospitality Management Inc. (“IHM”), which is 51% owned by Mr. Fisher, managed all 42 of the Company’s wholly owned hotels. As of December 31, 2018, all of the NewINK JV hotels were managed by IHM. As of December 31, 2018, 34 of the Inland JV hotels were managed by IHM and 14 hotels were managed by Marriott International, Inc. ("Marriott").

As of December 31, 2018, our wholly owned hotels include upscale extended-stay hotels that operate under the Residence Inn by Marriott® brand (sixteen hotels) and Homewood Suites by Hilton® brand (nine hotels), as well as premium-branded select-service hotels that operate under the Courtyard by Marriott® brand (six hotels), the Hampton Inn or Hampton Inn and Suites by Hilton® brand (three hotels), the Hilton Garden Inn by Hilton® brand (three hotels), the SpringHill Suites by Marriott® brand (two hotels), the Hyatt Place® brand (two hotels) and all suite hotels that operate under the upper scale extended stay Embassy Suites brand® (one hotel).

We primarily invest in upscale extended-stay hotels such as Homewood Suites by Hilton® and Residence Inn by Marriott®. We also invest in upscale or upper upscale all suite hotels such as SpringHill Suites by Marriott® or Embassy Suites.® Extended-stay and all-suite hotels typically have the following characteristics:

- principal customer base includes business travelers, whether short-term transient travelers or those on extended assignments and corporate relocations;
- services and amenities include complimentary breakfast and evening hospitality hour, high-speed internet access, in-room movie channels, limited

meeting space, daily linen and room cleaning service, 24-hour front desk, guest grocery services, and an on-site maintenance staff; and

- physical facilities include large suites, quality construction, full separate kitchens in each guest suite or suites that include a wet bar, refrigerator and microwave, quality room furnishings, pool, and exercise facilities.

Additionally, we invest in premium-branded select-service hotels such as Courtyard by Marriott®, Hampton Inn®, Hampton Inn and Suites by Hilton®, Hyatt Place® and Hilton Garden Inn by Hilton®. The service and amenity offerings of these hotels typically include complimentary breakfast or a smaller for pay breakfast or evening dining option, high-speed internet access, local calls, in-room movie channels, and daily linen and room cleaning service.

Financial Information About Industry Segments

We evaluate all of our hotels as a single industry segment because all of our hotels have similar economic characteristics and provide similar services to similar types of customers. Accordingly, we do not report segment information.

Business Strategy

Our primary objective is to generate attractive returns for our shareholders through investing in hotel properties (whether wholly owned or through a joint venture) at prices that provide strong returns on invested capital, paying dividends and generating long-term value appreciation. We believe we can create long-term value by pursuing the following strategies:

- *Disciplined acquisition of hotel properties:* We invest primarily in premium-branded upscale extended-stay and select-service hotels with a focus on the 25 largest metropolitan markets in the United States. We focus on acquiring hotel properties at prices below replacement cost in markets that have strong demand generators and where we expect demand growth will outpace new supply. We also seek to acquire properties that we believe are undermanaged or undercapitalized.

- *Opportunistic hotel repositioning:* We employ value-added strategies, such as re-branding, renovating, expanding or changing management, when we believe such strategies will increase the operating results and values of the hotels we acquire.

- *Aggressive asset management:* Although as a REIT we cannot operate our hotels, we proactively manage our third-party hotel managers in seeking to maximize hotel operating performance. Our asset management activities seek to ensure that our third-party hotel managers effectively utilize franchise brands' marketing programs, develop effective sales management policies and plans, operate properties efficiently, control costs, and develop operational initiatives for our hotels that increase guest satisfaction. As part of our asset management activities, we regularly review opportunities to reinvest in our hotels to maintain quality, increase long-term value and generate attractive returns on invested capital.

- Flexible selection of hotel management companies: We are flexible in our selection of hotel management companies and select managers that we believe will maximize the performance of our hotels. We utilize independent management companies, including IHM, a hotel management company 51% owned by Mr. Fisher that as of December 31, 2018, managed all 42 of our wholly owned hotels, all of the hotels owned by the NewINK JV and 34 hotels owned by the Inland JV, with 14 hotels managed by Marriott. We believe this strategy increases the universe of potential acquisition opportunities we can consider because many hotel properties are encumbered by long-term management contracts.

- *Selective investment in hotel debt:* We may consider selectively investing in debt collateralized by hotel property if we believe we can foreclose on or acquire ownership of the underlying hotel property in the relative near term. We do not intend to invest in any debt where we do not expect to gain ownership of the underlying property or to originate any debt financing.

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be similar to the levels at which we have operated in the past. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this target. Our debt coverage ratios currently are favorable and, as a result, we are comfortable in this leverage range and believe we have the capacity and flexibility to take advantage of acquisition opportunities as they arise. At December 31, 2018, our leverage ratio was approximately 34.7 percent, which increased from 34.0 percent percent at December 31, 2017. Over time, we intend to finance our growth with free cash flow, debt and issuances of common shares and/or preferred shares. Our debt may include mortgage debt collateralized by our hotel properties and unsecured debt.

When purchasing hotel properties, we may issue common units in our Operating Partnership as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common shares.

Competition

We face competition for investments in hotel properties from institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in hotel investments. Some of these entities have substantially greater financial and operational resources than we have or may be willing to use higher leverage. This competition may increase the bargaining power of property owners seeking to sell, reduce the number of suitable investment opportunities available to us and increase the cost of acquiring our targeted hotel properties.

The lodging industry is highly competitive. Our hotels compete with other hotels, and alternative lodging marketplaces, for guests in each market in which they operate. Competitive advantage is based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels and alternative lodging market places. Competition could adversely affect our occupancy rates, our average daily rates ("ADR") and revenue per available room (“RevPAR”), and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may reduce our profitability.

Seasonality

Demand for our hotels is affected by recurring seasonal patterns. Generally, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, influenced by overall economic cycles and the geographic locations of our hotels. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, we expect to utilize cash on hand or borrowings under our credit facility to pay expenses, debt service or to make distributions to our equity holders.

Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe each of our hotels has the necessary permits and approvals to operate its business, and each is adequately covered by insurance.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990 ("ADA") to the extent that such properties are "public accommodations" as defined by the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Although we believe that the properties in which we own interests (including the properties owned by the JV's) substantially comply with present requirements of the ADA, we have not conducted a comprehensive audit or investigation of all of these properties to determine compliance, and one or more properties may not be fully compliant with the ADA.

If we or any of our joint ventures are required to make substantial modifications to our wholly owned or joint venture hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders could be adversely affected. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate.

Environmental Regulations

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on our return from such investment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by release of hazardous substances and for property contamination. For instance, a person exposed to asbestos while working at or staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental issues restrict the use of a property or place conditions on various activities. One example is laws that require a business using chemicals to manage them carefully and to notify local officials if regulated spills occur.

Although it is our policy to require an acceptable Phase I environmental survey for all real property in which we invest prior to our investment, such surveys are limited in scope. As a result, there can be no assurance that a Phase I environmental survey will uncover any or all hazardous or toxic substances on a property prior to our investment in that property. We cannot assure you that:

- there are not existing environmental liabilities related to our properties of which we are not aware;
- future laws, ordinances or regulations will not impose material environmental liability; or
- the current environmental condition of a hotel will not be affected by the condition of properties in the vicinity of the hotel (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Tax Status

We elected to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2010 under the Internal Revenue Code of 1986, as amended (the "Code"). Our qualification as a REIT depends upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares of beneficial interest. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and that our current and intended manner of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT for federal income tax purposes.

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute to our shareholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we will be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS Lessees will be fully subject to federal, state and local corporate income tax.

During the third quarter of 2018, we were notified that the tax return of the our TRS was going to be examined by the Internal Revenue Service for the tax year ended December 31, 2016. The examination remains open. We believe we do not need to record a liability related to matters contained in the tax period open to examination. However, should we experience an unfavorable outcome in the matter, such outcome could have a material impact on our results of operations, financial position and cash flows.

The management agreements with IHM have an initial term of five years and will automatically renew for two successive five-year periods unless IHM provides written notice no later than 90 days prior to the then current term's expiration date of their intent not to renew. The IHM management agreements provide for early termination at the Company’s option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. Base management fees are calculated as a percentage of the hotel's gross room revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

As of December 31, 2018, terms of our management agreements for our 42 wholly owned hotels were as follows (dollars are not in thousands):

Property	Management Company	Base Management Fee	Monthly Accounting Fee	Monthly Revenue Management Fee	Incentive Management Fee Cap
Courtyard Altoona	IHM	3.0%	$ 1,500	$ 1,000	1.0%
Springhill Suites Washington	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Minneapolis-Mall of America	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Nashville-Brentwood	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Dallas-Market Center	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Hartford-Farmington	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton Orlando-Maitland	IHM	3.0%	1,200	1,000	1.0%
Hampton Inn & Suites Houston-Medical Center	IHM	3.0%	1,000	1,000	1.0%
Residence Inn Long Island Holtsville	IHM	3.0%	1,000	1,000	1.0%
Residence Inn White Plains	IHM	3.0%	1,000	750	1.0%
Residence Inn New Rochelle	IHM	3.0%	1,000	750	1.0%
Residence Inn Garden Grove	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Mission Valley	IHM	3.0%	1,200	1,000	1.0%
Homewood Suites by Hilton San Antonio River Walk	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Washington DC	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Tysons Corner	IHM	3.0%	1,200	1,000	1.0%
Hampton Inn Portland Downtown	IHM	3.0%	1,000	550	1.0%
Courtyard Houston	IHM	3.0%	1,000	550	1.0%
Hyatt Place Pittsburgh North Shore	IHM	3.0%	1,500	1,000	1.0%
Hampton Inn Exeter	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Denver Tech	IHM	3.0%	1,500	1,000	1.0%
Residence Inn Bellevue	IHM	3.0%	1,200	1,000	1.0%
Springhill Suites Savannah	IHM	3.0%	1,200	1,000	1.0%
	IHM	3.0%	1,200	1,000	1.0%

Residence Inn Silicon Valley I					
Residence Inn Silicon Valley II	IHM	3.0%	1,200	1,000	1.0%
Residence Inn San Mateo	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Mountain View	IHM	3.0%	1,200	1,000	1.0%
Hyatt Place Cherry Creek	IHM	3.0%	1,500	1,000	1.0%
Courtyard Addison	IHM	3.0%	1,500	1,000	1.0%
Courtyard West University Houston	IHM	3.0%	1,500	1,000	1.0%
Residence Inn West University Houston	IHM	3.0%	1,200	1,000	1.0%
Hilton Garden Inn Burlington	IHM	3.0%	1,500	1,000	1.0%
Residence Inn San Diego Gaslamp	IHM	3.0%	1,500	1,000	1.0%
Hilton Garden Inn Marina del Rey	IHM	3.0%	1,500	1,000	1.0%
Residence Inn Dedham	IHM	3.0%	1,200	1,000	1.0%
Residence Inn Il Lugano	IHM	3.0%	1,500	1,000	1.0%
Hilton Garden Inn Portsmouth	IHM	3.0%	1,500	1,000	1.0%
Courtyard Summerville	IHM	3.0%	1,500	1,000	1.0%
Embassy Suites Springfield	IHM	3.0%	1,500	1,000	1.0%
Residence Inn Summerville	IHM	3.0%	1,500	1,000	1.0%
Courtyard Dallas	IHM	3.0%	1,500	1,000	1.0%

Management fees totaled approximately $10.8 million, $9.9 million and $9.4 million, respectively, for the years ended December 31, 2018, 2017 and 2016. Incentive management fees, which are included in management fees, for the years ended December 31, 2018, 2017 and 2016 were $0.1 million, $0.2 million and $0.3 million, respectively.

Hotel Franchise Agreements

The fees associated with the franchise agreements are calculated as a specified percentage of the hotel's gross room revenue. Terms of the Company's franchise agreements for its 42 wholly owned hotels as of December 31, 2018 were as follows:

Property	Franchise Company	Franchise/Royalty Fee	Marketing/Program Fee	Expiration
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Promus Hotels, Inc.	4.0%	4.0%	2025
Homewood Suites by Hilton Minneapolis-Mall of America	Promus Hotels, Inc.	4.0%	4.0%	2025
Homewood Suites by Hilton Nashville-Brentwood	Promus Hotels, Inc.	4.0%	4.0%	2025
Homewood Suites by Hilton Dallas-Market Center	Promus Hotels, Inc.	4.0%	4.0%	2025
Homewood Suites by Hilton Hartford-Farmington	Promus Hotels, Inc	4.0%	4.0%	2025
Homewood Suites by Hilton Orlando-Maitland	Promus Hotels, Inc.	4.0%	4.0%	2025
Hampton Inn & Suites Houston-Medical Center	Hampton Inns Franchise LLC	5.0%	4.0%	2035
Courtyard Altoona	Marriott International, Inc.	5.5%	2.0%	2030
Springhill Suites Washington	Marriott International, Inc.	5.0%	2.5%	2030
Residence Inn Long Island Holtsville	Marriott International, Inc.	5.5%	2.5%	2025
Residence Inn White Plains	Marriott International, Inc.	5.5%	2.5%	2030
Residence Inn New Rochelle	Marriott International, Inc.	5.5%	2.5%	2030
Residence Inn Garden Grove	Marriott International, Inc.	5.0%	2.5%	2031
Residence Inn Mission Valley	Marriott International, Inc.	5.0%	2.5%	2031
Homewood Suites by Hilton San Antonio River Walk	Promus Hotels, Inc.	4.0%	4.0%	2026
Residence Inn Washington DC	Marriott International, Inc.	5.5%	2.5%	2033
Residence Inn Tysons Corner	Marriott International, Inc.	5.0%	2.5%	2031
Hampton Inn Portland Downtown	Hampton Inns Franchise LLC	6.0%	4.0%	2032
Courtyard Houston	Marriott International, Inc.	5.5%	2.0%	2030
Hyatt Place Pittsburgh North Shore	Hyatt Hotels, LLC	5.0%	3.5%	2030

Hampton Inn Exeter	Hampton Inns Franchise LLC	6.0%	4.0%	2031
Hilton Garden Inn Denver Tech	Hilton Garden Inns Franchise LLC	5.5%	4.3%	2028
Residence Inn Bellevue	Marriott International, Inc.	5.5%	2.5%	2033
Springhill Suites Savannah	Marriott International, Inc.	5.0%	2.5%	2033
Residence Inn Silicon Valley I	Marriott International, Inc.	5.5%	2.5%	2029
Residence Inn Silicon Valley II	Marriott International, Inc.	5.5%	2.5%	2029
Residence Inn San Mateo	Marriott International, Inc.	5.5%	2.5%	2029
Residence Inn Mountain View	Marriott International, Inc.	5.5%	2.5%	2029
Hyatt Place Cherry Creek	Hyatt Hotels, LLC	3% to 5%	3.5%	2034
Courtyard Addison	Marriott International, Inc.	5.5%	2.0%	2029
Courtyard West University Houston	Marriott International, Inc.	5.5%	2.0%	2029
Residence Inn West University Houston	Marriott International, Inc.	6.0%	2.5%	2024
Hilton Garden Inn Burlington	Hilton Garden Inns Franchise LLC	5.5%	4.3%	2029
Residence Inn San Diego Gaslamp	Marriott International, Inc.	6.0%	2.5%	2035
Hilton Garden Inn Marina del Rey	Hilton Franchise Holding LLC	3% to 5.5%	4.3%	2030
Residence Inn Dedham	Marriott International, Inc.	6.0%	2.5%	2030
Residence Inn Il Lugano	Marriott International, Inc.	3% to 6%	2.5%	2045
Hilton Garden Inn Portsmouth	Hilton Garden Inns Franchise LLC	5.5%	4.0%	2037
Courtyard Summerville	Marriott International, Inc.	6.0%	2.5%	2037
Embassy Suites Springfield	Hilton Franchise Holding LLC	5.5%	4.0%	2037
Residence Inn Summerville	Marriott International, Inc.	6.0%	2.5%	2038
Courtyard Dallas	Marriott International,	4% to	2.0%	2038

Inc.	6%

Franchise and marketing/program fees totaled approximately $24.9 million, $23.2 million and $22.4 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

Operating Leases

The Courtyard Altoona hotel is subject to a ground lease with an expiration date of April 30, 2029 and we have an extension option of up to 12 additional terms of five years each. Monthly payments are determined by the quarterly average room occupancy of the hotel. Rent currently is equal to approximately $8,400 per month when monthly occupancy is less than 85% and can increase up to approximately $20,000 per month if occupancy is 100%, with minimum rent increased by two and one-half percent (2.5%) on an annual basis.

The Residence Inn San Diego Gaslamp hotel is subject to a ground lease with an expiration of January 31, 2065 and we have an extension option of up to three additional terms of ten years each. Monthly payments are currently approximately $40,300 per month and increase 10% every five years. The hotel is subject to supplemental rent payments annually calculated as 5% of gross revenues during the applicable lease year, minus 12 times the monthly base rent scheduled for the lease year.

The Residence Inn New Rochelle hotel is subject to an air rights lease and a garage lease, each of which expires on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel's proportionate share of the city's adopted budget for the operations, management and maintenance of the garage and established reserves to fund for the cost of capital repairs. Aggregate rent for 2018 under these leases amounted to approximately $29,000 per quarter.

The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration of December 31, 2067. Minimum monthly payments are currently approximately $47,500 per month and a percentage rent payment equal to 5% to 25% of gross income based on the type of income less the minimum rent is due in arrears.

The Company entered into a corporate office lease in September 2015. The lease is for a term of 11 years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company has a renewal option of up to two successive terms of five years each. The Company shares the space with related parties and is reimbursed for the pro-rata share of rentable space occupied by the related parties.

Future minimum rental payments under the terms of all non-cancellable operating ground leases and the office lease under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The following is a schedule of the minimum future payments required under the ground, air rights, garage leases and office lease as of December 31, 2018 for each of the next five calendar years and thereafter (dollars in thousands):

	Amount	
	Other Leases(1)	**Office Lease**
2019	$ 1,273	$ 792
2020	1,320	812
2021	1,326	831
2022	1,329	853
2023	1,332	874
Thereafter	69,225	2,436
Total	**$ 75,805**	**$ 6,598**

(1) Other leases includes ground, garage and air rights leases at our hotels.

Employees

As of February 25, 2019, we had 40 employees, 33 of which are shared with or allocated to the NewINK JV, Inland JV and an entity which is 2.5% owned by Mr. Fisher. All persons employed in the day-to-day operations of our hotels are employees of the management companies engaged by our TRS Lessees to operate such hotels. None of our employees are represented by a collective bargaining agreement, however, certain hotel level employees of IHM are represented under a collective bargaining agreement.

Additional Material U.S. Federal Income Tax Considerations

The following is a summary of certain additional material federal income tax considerations with respect to the ownership of our shares of beneficial interest. This summary supplements and should be read together with “Material U.S. Federal Income Tax Considerations” in the prospectus dated January 4, 2017 and filed as part of our registration statement on Form S-3ASR (No. 333-215418).

Recent Legislation

The recently passed Tax Cuts and Jobs Act (“TCJA”) made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. Pursuant to the TCJA, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37% (through taxable years ending in 2025), (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. shareholders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not “capital gain dividends” or “qualified dividend income,” subject to certain limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years ending in 2025). The maximum rate of withholding with respect to our distributions to non-U.S. shareholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. To the extent that our TRS or any other TRS we form has interest expense that exceeds its interest income, the net interest expense limitation could potentially apply to such TRS. The reduced corporate tax rate will apply to our TRS and any other TRS we form.

We urge you to consult your tax advisors regarding the impact of the TCJA on the purchase, ownership and sale of our shares of beneficial interest.

Available Information

Our Internet website is www.chathamlodgingtrust.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3, 4 and 5 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. All reports that we have filed with the SEC, including this annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can also be obtained free of charge from the SEC's website www.sec.gov. In addition, our website includes corporate governance information, including the charters for committees of our Board of Trustees, our Corporate Governance Guidelines, Conflict of Interest Policy and our Code of Business Conduct. This information is available in print to any shareholder who requests it by writing to Investor Relations, Chatham Lodging Trust, 222 Lakeview Avenue, Suite 200, West Palm Beach, FL 33401. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings that we make with the SEC.

Item 1A. Risk Factors

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occurs, our business, financial condition or results of operations could suffer, our ability to make cash distributions to our shareholders could be impaired and the trading price of our common shares could decline. You should know that many of the risks described may apply to more than just the subsection in which we grouped them for the purpose of this presentation.

Risks Related to Our Business

Our investment policies are subject to revision from time to time at our Board of Trustees' discretion, which could diminish shareholder returns below expectations.

Our investment policies may be amended or revised from time to time at the discretion of our Board of Trustees, without a vote of our shareholders. Such discretion could result in investments that may not yield returns consistent with investors' expectations.

We depend on the efforts and expertise of our key executive officers whose continued service is not guaranteed.

We depend on the efforts and expertise of our chief executive officer, as well as our other senior executives, to execute our business strategy. The loss of their services, and our inability to find suitable replacements, could have an adverse effect on our business.

If we are unable to successfully manage our growth, our operating results and financial condition could be adversely affected.

Our ability to grow our business depends upon our senior executive officers' business contacts and their ability to successfully hire, train, supervise and manage additional personnel. We may not be able to hire and train sufficient personnel or develop management, information and operating systems suitable for our expected growth. If we are unable to manage any future growth effectively, our operating results and financial condition could be adversely affected.

Our future growth depends on obtaining new financing and if we cannot secure financing in the future, our growth will be limited.

The success of our growth strategy depends on access to capital through use of excess cash flow, borrowings or subsequent issuances of common shares or other securities. Acquisitions of new hotel properties will require significant additional capital and existing hotels (including those owned through joint ventures) require periodic capital improvement initiatives to remain competitive. We may not be able to fund acquisitions or capital improvements solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year to satisfy the requirements for qualification as a REIT for federal income tax purposes. As a result, our ability to fund capital expenditures for acquisitions through retained earnings is very limited. Our ability to grow through acquisitions of hotels will be limited if we cannot obtain satisfactory debt or equity financing, which will depend on capital markets conditions. We cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

We may be unable to invest proceeds from offerings of our securities.

We will have broad authority to invest the net proceeds of any offering of our securities in any real estate investments that we may identify in the future, or to repay debt, or for other corporate purposes and we may use those proceeds to make investments with which you may not agree. In addition, our investment policies may be amended or revised from time to time at the discretion of our Board of Trustees, without a vote of our shareholders. These factors will increase the uncertainty, and thus the risk, of investing in our common shares. Our failure to apply the net proceeds of any offering effectively or to find suitable hotel properties to acquire in a timely manner or on acceptable terms could result in returns that are substantially below expectations or result in losses.

Until appropriate investments can be identified, we may invest the net proceeds of any offering of our securities in interest-bearing short-term securities or money-market accounts that are consistent with our qualification as a REIT. These investments are expected to provide a lower net return than we seek to achieve from our hotel properties. We may be unable to invest the net proceeds on acceptable terms, or at all, which could delay shareholders from receiving an appropriate return on their investment. We cannot assure you that we will be able to identify properties that meet our investment criteria, that we will successfully consummate any investment opportunities we identify, or that investments we may make will generate income or cash flow.

We must rely on third party management companies to operate our hotels in order to qualify as a REIT under the Code and, as a result, we have less control than if we were operating the hotels directly.

To maintain our qualification as a REIT under the Code, third parties must operate our hotels. We lease each of our hotels to our TRS Lessees. Our TRS Lessees, in turn, have entered into management agreements with third party management companies to operate our hotels. While we expect to have some input on operating decisions for those hotels leased by our TRS Lessees and operated under management agreements, we have less control than if we were managing the hotels ourselves. Even if we believe that our hotels are not being operated efficiently, we may not be able to require an operator to change the way it operates our hotels. If this is the case, we may decide to terminate the management agreement and potentially incur costs associated with the termination. Additionally, Mr. Fisher, our Chairman and Chief Executive Officer, controls IHM, a hotel management company that, as of December 31, 2018, managed 42 of our hotels, all of the 47 hotels owned by the NewINK JV, and 34 of the hotels owned by the Inland JV, and may manage additional hotels that we acquire in the future. See "There may be conflicts of interest between us and affiliates owned by our Chief Executive Officer" below.

Our management agreements could adversely affect the sale or financing of hotel properties and, as a result, our operating results and ability to make distributions to our shareholders could suffer.

While we would prefer to enter into flexible management contracts that will provide us with the ability to replace hotel managers on relatively short notice and with limited cost, we may enter into, or acquire properties subject to, management contracts that contain more restrictive covenants. For example, the terms of some management agreements may restrict our ability to sell a property unless the purchaser is not a competitor of the manager and assumes the related management agreement and meets specified other conditions. Also, the terms of a long-term management agreement encumbering our properties may reduce the value of the property. If we enter into or acquire properties subject to any such management agreements, we may be precluded from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense, which could adversely affect our operating results and our ability to make distributions to shareholders. Moreover, the management agreements that we use in connection with hotels managed by IHM were not negotiated on an arm's-length basis due to Mr. Fisher's control of IHM and therefore may not contain terms as favorable to us as we could obtain in an arm's-length transaction with a third party. See "There are conflicts of interest between us and affiliates owned by our Chief Executive Officer" below.

The management of the hotels in our portfolio is currently concentrated in one hotel management company.

As of December 31, 2018, IHM managed all 42 of our wholly owned hotels, as well as all of the 47 hotels owned by the NewINK JV and 34 of the 48 hotels owned by the Inland JV. As a result, a substantial portion of our revenues is generated by hotels managed by IHM. This significant concentration of operational risk in one hotel management company makes us more vulnerable economically than if our hotel management was more diversified among several hotel management companies. Any adverse developments in IHM's business and affairs, financial strength or ability to operate our hotels efficiently and effectively could have a material adverse effect on our business, financial condition, or results of operations and our ability to make distributions to our shareholders. We cannot provide assurance that IHM will satisfy its obligations to us or effectively and efficiently operate out hotel properties.

Our franchisors could cause us to expend additional funds on upgraded operating standards, which may reduce cash available for distribution to shareholders.

Our hotels operate under franchise agreements, and we may become subject to the risks that are found in concentrating our hotel properties in one or several franchise brands. Our hotel operators must comply with operating standards and terms and conditions imposed by the franchisors of the hotel brands under which our hotels operate. Pursuant to certain of the franchise agreements, certain upgrades are required approximately every six years, and the franchisors may also impose upgraded or new brand standards, such as substantially upgrading the bedding, enhancing the complimentary breakfast or increasing the value of guest awards under its ‘frequent guest' program, which can add substantial expense for the hotel. The franchisors also may require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial and may reduce cash available for distribution to our shareholders.

Our franchisors may cancel or fail to renew our existing franchise licenses, which could adversely affect our operating results and our ability to make distributions to shareholders.

Our franchisors periodically inspect our hotels to confirm adherence to the franchisors' operating standards. The failure of a hotel to maintain standards could result in the loss or cancellation of a franchise license. We rely on our hotel managers to conform to operational standards. In addition, when the term of a franchise license expires, the franchisor has no obligation to issue a new franchise license. The loss of a franchise license could have a material adverse effect on the operations or the underlying value of the affected hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. The loss of a franchise license or adverse developments with respect to a franchise brand under which our hotels operate could also have a material adverse effect on our financial condition, results of operations and cash available for distribution to shareholders.

Fluctuations in our financial performance, capital expenditure requirements and excess cash flow could adversely affect our ability to make and maintain distributions to our shareholders.

As a REIT, we are required to distribute at least 90% of our REIT taxable income each year to our shareholders (determined without regard to the deduction for dividends paid and excluding any net capital gains). In the event of downturns in our operating results and financial performance or unanticipated capital improvements to our hotels (including capital improvements that may be required by franchisors or joint venture partners), we may be unable to declare or pay distributions to our shareholders, or maintain our then-current dividend rate. The timing and amount of distributions are in the sole discretion of our Board of Trustees, which considers, among other factors, our financial performance, debt service obligations and applicable debt covenants (if any), and capital expenditure requirements. We cannot assure you we will generate sufficient cash in order to continue to fund distributions.

Among the factors which could adversely affect our results of operations and distributions to shareholders are reductions in hotel revenues; increases in operating expenses at the hotels leased to our TRS Lessees; increased debt service requirements, including those resulting from higher interest rates on our indebtedness; cash demands from the joint ventures and capital expenditures at our hotels, including capital expenditures required by the franchisors of our hotels, and unknown liabilities, such as environmental claims. Hotel revenue can decrease for a number of reasons, including increased competition from new hotels and decreased demand for hotel rooms. These factors can reduce both occupancy and room rates at hotels and could directly affect us negatively by:

- reducing the hotel revenue that we recognize with respect to hotels leased to our TRS Lessees; and

- correspondingly reducing the profits (or increasing the loss) of hotels leased to our TRS Lessees. We may be unable to reduce many of our expenses in tandem with revenue declines, (or we may choose not to reduce them for competitive reasons), and certain expenses may increase while our revenue declines.

16

Future debt service obligations could adversely affect our overall operating results or cash flow and may require us to liquidate our properties, which could adversely affect our ability to make distributions to our shareholders and our share price.

We plan to maintain a prudent capital structure and intend to maintain our leverage over the long term at a ratio of net debt to investment in hotels (at cost) (defined as our initial acquisition price plus the gross amount of any subsequent capital investment and excluding any impairment charges) at a level that will be similar to the levels at which we have operated in the past. A subsequent decrease in hotel property values will not necessarily cause us to repay debt to comply with this limitation. Our debt coverage ratios currently are favorable and, as a result, we are comfortable at this leverage ratio and believe we have the capacity and flexibility to take advantage of acquisition opportunities as they arise. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring additional debt could subject us to many risks, including the risks that:

- operating cash flow will be insufficient to make required payments of expenses, principal and interest;
- our leverage may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing cash available for distribution to our shareholders, funds available for operations and capital expenditures, future business opportunities or

other purposes;

- the terms of any refinancing will not be as favorable as the terms of the debt being refinanced; and
- the terms of our debt may limit our ability to make distributions to our shareholders.

If we violate covenants in our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all.

If we are unable to repay our debt obligations in the future, we may be forced to refinance debt or dispose of or encumber our assets, which could adversely affect distributions to shareholders.

If we do not have sufficient funds to repay our outstanding debt at maturity or before maturity in the event we breach our debt agreements and our lenders exercise their right to accelerate repayment, we may be required to refinance the debt through additional debt or additional equity financings. Covenants applicable to our existing and future debt could impair our planned investment strategy and, if violated, result in a default. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses. We have placed mortgages on certain of our hotel properties, have assumed mortgages on other hotels we acquired and may place additional mortgages on certain of our hotels to secure other debt. To the extent we cannot meet any future debt service obligations, we will risk losing some or all of our hotel properties that are pledged to secure our obligations to foreclosure.

Interest expense on our debt may limit our cash available to fund our growth strategies and shareholder distributions.

Higher interest rates could increase debt service requirements on debt under our credit facility and any floating rate debt that we incur in the future, as well as any amounts we seek to refinance, and could reduce the amounts available for distribution to our shareholders, as well as reduce funds available for our operations, future business opportunities, or other purposes. Interest expense on our credit facility is based on floating interest rates.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make shareholder distributions.

We may obtain in the future one or more forms of interest rate protection, such as swap agreements, interest rate cap contracts or similar agreements, to hedge against the possible negative effects of interest rate fluctuations. However, such hedging implies costs and we cannot assure you that any hedging will adequately relieve the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations thereunder. Furthermore, any such hedging agreements would subject us to the risk of incurring significant non-cash losses on our hedges due to declines in interest rates if our hedges were not considered effective under applicable accounting standards.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.

The chief executive of the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, has recently announced that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom or elsewhere. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large US financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”), a new index calculated by short-term repurchase agreements, backed by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, and SOFR is an overnight rate and LIBOR reflects term rates at different maturities. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. Any of these alternative methods may result in interest rates that are higher than if LIBOR were available in its current form, which could have a material adverse effect on results.

Any changes announced by the FCA, including the FCA Announcement, other regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR rate was available in its current form.

Joint venture investments that we make could be adversely affected by our lack of decision-making authority, our reliance on joint venture partners' financial condition and disputes between us and our joint venture partners.

We are co-investors with CLNY in each of the NewINK JV and Inland JV, which own 47 and 48 hotels, respectively, and we may invest in additional joint ventures in the future. We may not be in a position to exercise decision-making authority regarding the properties owned through the JVs or other joint ventures that we may invest in. Our joint venture partners may be able to make certain important decisions about our joint venture and the joint venture properties without our approval or consent. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including reliance on our joint venture partners and the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions, thus exposing us to liabilities in excess of our share of the investment. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner would have full control over the partnership or joint venture. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by, or disputes with, our joint venture partners might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners.

It may be difficult for us to exit a joint venture after an impasse with our co-venturer.

In our joint ventures, there may be a potential risk of impasse in some joint venture decisions because our approval and the approval of each co-venturer will be required for some decisions. The types of decisions that would require the approval of each co-venturer would be determined under the joint venture agreement between the parties, but those types of decisions are likely to include borrowing above a certain level or disposing of assets. In some instances, the co-venturer partner may be able to effect the sale of joint venture properties or borrow funds without our approval or consent. In any joint venture, we may have the right to buy our co-venturer's interest or to sell our own interest on specified terms and conditions in the event of an impasse regarding a sale. However, it is possible that neither party will have the funds necessary to complete such a buy-out. In addition, we may experience difficulty in locating a third-party purchaser for our joint venture interest and in obtaining a favorable sale price for the interest. As a result, it is possible that we may not be able to exit the relationship if an impasse develops. In addition, there is no limitation under our declaration of trust and bylaws as to the amount of funds that we may invest in joint ventures. Accordingly, we may invest a substantial amount of our funds in joint ventures, which ultimately may not be profitable as a result of disagreements with or among our co-venturers.

The Company does not have sole control of the JVs and may be required to contribute additional capital in the event of a capital call.

The Company's ownership interests in the JVs are subject to change in the event that we or CLNY call for additional capital contributions to a JV that is necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. CLNY may also approve certain actions by the JVs in which it participates without our consent, including certain property dispositions conducted at arm's length, certain actions related to the restructuring of the JVs and the removal of us as managing member in the event we fail to fulfill our material obligations under the joint venture agreement.

***Our Operating Partnership acts as guarantor under certain debt obligations of the JVs*.**

In connection with (i) the non-recourse mortgage loan secured by the NewINK JV properties and the related non-recourse mezzanine loan secured by the membership interests in the owners of the NewINK JV properties and (ii) the non-recourse mortgage loan secured by the Inland JV properties, the Operating Partnership provided the applicable lenders with customary environmental indemnities, as well as guarantees of certain customary non-recourse carveout provisions such as fraud, material and intentional misrepresentations and misapplication of funds. In some circumstances, such as the bankruptcy of the applicable borrowers, the guarantees are for the full amount of the outstanding debt, but in most circumstances, the guarantees are capped at 15% of the debt outstanding at the time in question (in the case of the NewINK JV loans) or 20% of the debt outstanding at the time in question (in the case of the Inland JV loans). In connection with each of the NewINK JV and Inland JV loans, the Operating Partnership has entered into a contribution agreement with its JV partner whereby the JV partner is, in most cases, responsible to cover such JV partner's pro rata share of any amounts due by the Operating Partnership under the applicable guarantees and environmental indemnities.

We may from time to time make distributions to our shareholders in the form of our common shares, which could result in shareholders incurring tax liability without receiving sufficient cash to pay such tax.

Although we have no current intention to do so, we may in the future distribute taxable dividends that are payable in cash or common shares at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, if a significant number of our shareholders sell common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares.

Our conflict of interest policy may not be successful in eliminating the influence of future conflicts of interest that may arise between us and our trustees, officers and employees.

We have adopted a policy that any transaction, agreement or relationship in which any of our trustees, officers or employees has a direct or indirect pecuniary interest must be approved by a majority of our disinterested trustees. Other than this policy, however, we have not adopted and may not adopt additional formal procedures for the review and approval of conflict of interest transactions generally. As such, our policies and procedures may not be successful in eliminating the influence of conflicts of interest.

There may be conflicts of interest between us and affiliates owned by our Chief Executive Officer.

Our Chief Executive Officer, Mr. Fisher, owned 51% of IHM, a hotel management company that, as of December 31, 2018, managed 42 of our wholly owned hotels, all of the 47 hotels owned by the NewINK JV and 34 of the hotels owned by the Inland JV, and may manage additional hotels that we acquire or own (wholly or through a joint venture) in the future. Because Mr. Fisher is our Chairman and Chief Executive Officer and controls IHM, conflicts of interest may arise between us and Mr. Fisher as to whether and on what terms new management contracts will be awarded to IHM, whether and on what terms management agreements will be renewed upon expiration of their terms, enforcement of the terms of the management agreements and whether hotels managed by IHM will be sold.

Risks Related to the Lodging Industry

The lodging industry has experienced significant declines in the past and failure of the lodging industry to exhibit improvement may adversely affect our ability to execute our business strategy.

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. gross domestic product, or GDP. It is also sensitive to business and personal discretionary spending levels. Declines in corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions can lower the revenues and profitability of our future hotel properties and therefore the net operating profits of our TRS.

A substantial part of our business strategy is based on the belief that the lodging markets in which we invest will experience improving economic fundamentals in the future. We cannot predict the extent to which lodging industry fundamentals will improve. In the event conditions in the industry do not improve, or deteriorate, our ability to execute our business strategy would be adversely affected, which could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Our ability to make distributions to our shareholders may be affected by various operating risks common in the lodging industry.

Hotel properties are subject to various operating risks common to the hotel industry, many of which are beyond our control, including:

- competition from other hotel properties and alternative lodging market places in the markets in which we and our joint ventures operate, some of which may have greater marketing and financial resources;
- an over-supply or over-building of hotel properties in the markets in which we and our joint ventures

operate, which could adversely affect occupancy rates and revenues;

- dependence on business and commercial travelers and tourism;
- increases in energy costs and other expenses and factors affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- necessity for periodic capital reinvestment to repair and upgrade hotel properties;
- changes in interest rates and in the availability, cost and terms of debt financing;

- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu, SARS and Zika virus, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis, earthquakes,

wildfires and flooding;

- disruptions to the operations of our hotels caused by organized labor activities, including strikes, work stoppages or slow downs;
- adverse effects of a downturn in the economy or in the hotel industry; and
- risk generally associated with the ownership of hotel properties and real estate, as we discuss in detail below.

These factors could reduce the net operating profits of our TRS and the rental income we receive from our TRS Lessees, which in turn could adversely affect our ability to make distributions to our shareholders.

Competition for acquisitions may reduce the number of properties we can acquire.

We compete for hotel investment opportunities with competitors that may have a different tolerance for risk or have substantially greater financial resources than are available to us. This competition may generally limit the number of hotel properties that we are able to acquire and may also increase the bargaining power of hotel owners seeking to sell, making it more difficult for us to acquire hotel properties on attractive terms, or at all.

Competition for guests may lower our hotels' revenues and profitability.

The upscale extended-stay and mid-price segments of the hotel business are highly competitive. Our hotels and those of our JVs compete on the basis of location, room rates and quality, service levels, reputation, and reservation systems, among many other factors. Competitors may have substantially greater marketing and financial resources than our operators or us. New hotels create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available for distribution to our shareholders.

The seasonality of the hotel industry may cause fluctuations in our quarterly revenues that cause us to borrow money to fund distributions to our shareholders.

Certain hotel properties we own or acquire in the future (wholly or through joint ventures) have business that is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in revenues. Quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors. As a result, we may have to enter into short-term borrowings in order to offset these fluctuations in revenue and to make distributions to our shareholders.

The cyclical nature of the lodging industry may cause the return on our investments to be substantially less than we expect.

The lodging industry is cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affects levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. Decline in lodging demand, or a continued growth in lodging supply, could result in returns that are substantially below expectations or result in losses, which could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our shareholders.

Due to our concentration in hotel investments, a downturn in the lodging industry would adversely affect our operations and financial condition.

Our entire business is related to the hotel industry. Therefore, a downturn in the hotel industry, in general, will have a material adverse effect on our revenues, net operating profits and cash available for distribution to our shareholders.

The ongoing need for capital expenditures at our hotel properties may adversely affect our business, financial condition and results of operations and limit our ability to make distributions to our shareholders.

Hotel properties have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels and those of our JVs also require periodic capital improvements as a condition of keeping the franchise licenses. In addition, our lenders require us to set aside amounts for capital improvements to our hotel properties. These capital improvements may give rise to the following risks:

- possible environmental problems;
- construction cost overruns and delays;
- possibility that revenues will be reduced temporarily while rooms or restaurants offered are out of service due to capital improvement projects;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available on affordable terms;
- uncertainties as to market demand or a loss of market demand after capital improvements have begun; and
- disputes with franchisors/managers regarding compliance with relevant management/franchise agreements.

The costs of all these capital improvements could adversely affect our business, financial condition, results of operations and cash available for distribution to our shareholders.

The increasing use by consumers of Internet travel intermediaries and alternative lodging market places may adversely affect our profitability.

Some of our hotel rooms are booked through Internet travel intermediaries. As Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as "three-star downtown hotel") at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our properties are franchised. Additional sources of competition, including alternative lodging marketplaces, such as HomeAway and Airbnb, which operate websites that market available furnished, privately-owned residential properties, including homes and condominiums, that can be rented on a nightly, weekly or monthly basis, may, as they become more accepted, lead to a reduced demand for conventional hotel guest rooms and to an increased supply of lodging alternatives. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of bookings made through Internet intermediaries or the use of alternative lodging marketplaces increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

We and our hotel managers rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Future terrorist attacks or changes in terror alert levels could adversely affect travel and hotel demand.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. The impact that terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined but any such attacks or the threat of such attacks could have a material adverse effect on our business, financial condition and results of operations and our ability to finance our business, to insure our properties and to make distributions to our shareholders.

We may assume liabilities in connection with the acquisition of hotel properties, including unknown liabilities, which, if significant, could adversely affect our business.

We may assume existing liabilities in connection with the acquisition of hotel properties, some of which may be unknown or unquantifiable. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of hotel guests, vendors or other persons dealing with the seller of a particular hotel property, tax liabilities, employment-related issues and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, they could adversely affect our business, financial condition, results of operations and our ability to make distributions to our shareholders.

Uninsured and underinsured losses could adversely affect our operating results and our ability to make distributions to our shareholders.

We maintain comprehensive insurance on each of our hotel properties, including liability, terrorism, fire and extended coverage, of the type and amount customarily obtained for or by hotel property owners. There can be no assurance that such coverage will continue to be available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods and losses from foreign terrorist activities such as those on September 11, 2001 or losses from domestic terrorist activities such as the Oklahoma City bombing, may not be insurable or may not be insurable on reasonable economic terms. Lenders may require such insurance and failure to obtain such insurance could constitute a default under loan agreements. Depending on our access to capital, liquidity and the value of the properties securing the affected loan in relation to the balance of the loan, a default could have a material adverse effect on our results of operations and ability to obtain future financing.

In the event of a substantial loss, insurance coverage may not be sufficient to cover the full current market value or replacement cost of the lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we invested in a hotel property, as well as the anticipated future revenue from that particular hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property.

Noncompliance with environmental laws and governmental regulations could adversely affect our operating results and our ability to make distributions to shareholders.

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect our or our joint ventures' ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on our return from such investment. Moreover, the presence of such substance or the failure to properly mediate such substances could adversely affect our operating results and our ability to make distributions to our shareholders.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by release of hazardous substances and for property contamination. For instance, a person exposed to asbestos while working at or staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental issues restrict the use of a property or place conditions on various activities. One example is laws that require a business using chemicals to manage them carefully and to notify local officials if regulated spills occur.

Although it is our policy to require an acceptable Phase I environmental survey for all real property in which we invest prior to our investment, such surveys are limited in scope. As a result, there can be no assurance that a Phase I environmental survey will uncover any or all hazardous or toxic substances on a property prior to our investment in that property. We cannot assure you:

- that there are no existing liabilities related to our properties of which we are not aware;
- that future laws, ordinances or regulations will not impose material environmental liability; or
- that the current environmental condition of a hotel will not be affected by the condition of properties in the vicinity of the hotel (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Compliance with the ADA and other changes in governmental rules and regulations could substantially increase our cost of doing business and adversely affect our operating results and our ability to make distributions to our shareholders.

Our hotel properties are subject to the ADA. Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. Although we intend to continue to acquire assets that are substantially in compliance with the ADA, we may incur additional costs of complying with the ADA at the time of acquisition and from time-to-time in the future to stay in compliance with any changes in the ADA. A number of additional federal, state and local laws exist that also may require modifications to our investments, or restrict certain further renovations thereof, with respect to access thereto by disabled persons. Additional legislation may impose further burdens or restrictions on owners with respect to access by disabled persons. If we were required to make substantial modifications at our properties to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

In March 2012, a substantial number of changes to the Accessibility Guidelines under the ADA took effect. The new guidelines caused some of our hotel properties to incur costs to become fully compliant.

If we are required to make substantial modifications to our hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders could be adversely affected. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate.

General Risks Related to Real Estate Industry

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our hotel properties and adversely affect our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes,

wildfires, tornadoes, hurricanes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism.

We may seek to sell hotel properties owned by us or any of the JVs in the future. There can be no assurance that we will be able to sell any hotel property on acceptable terms.

If financing for hotel properties is not available or is not available on attractive terms, it will adversely impact the ability of third parties to buy our hotels. As a result, we or our JVs may hold hotel properties for a longer period than we would otherwise desire and may sell hotels at a loss.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to our shareholders.

Increases in our property taxes would adversely affect our ability to make distributions to our shareholders.

Hotel properties are subject to real and personal property taxes. These taxes may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. In particular, our property taxes could increase following our hotel purchases as the acquired hotels are reassessed. If property taxes increase, our financial condition, results of operations and our ability to make distributions to our shareholders could be materially and adversely affected.

Our hotel properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of mold to which hotel guests or employees could be exposed at any of the properties in which we own an interest could require us to undertake a costly remediation program to contain or remove the mold from the affected property, which could be costly. In addition, exposure to mold by guests or employees, management company employees or others could expose us to liability if property damage or health concerns arise.

Risks Related to Our Organization and Structure

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit your recourse in the event of actions not in your best interests.

Under Maryland law generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our bylaws obligate us to indemnify our trustees and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each trustee or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies.

Provisions of Maryland law may limit the ability of a third party to acquire control of our Company and may result in entrenchment of management and diminish the value of our common shares.

Certain provisions of the Maryland General Corporation Law ("MGCL") applicable to Maryland real estate investment trusts may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- *"Business combination"* provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares) or an affiliate of any interested shareholder for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes special appraisal rights and special shareholder voting requirements on these combinations; and

- *"Control share"* provisions that provide that our "control shares" (defined as shares which, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain takeover defenses, including, but not limited to, the adoption of a classified board. In November 2013, our Board of Trustees opted in to Subtitle 8 and adopted a classified board structure in order to protect shareholder value in the wake of what our Board considered to be an unsolicited and inadequate proposal to acquire us. Although our Board subsequently took action in April 2015 to opt back out of the provisions of Subtitle 8 and declassified our Board of Trustees, our Board may elect to opt back in to Subtitle 8 again in the future. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price.

Provisions of our declaration of trust may limit the ability of a third party to acquire control of our Company and may result in entrenchment of management and diminish the value of our common shares.

Our declaration of trust authorizes our Board of Trustees to issue up to 500,000,000 common shares and up to 100,000,000 preferred shares. In addition, our Board of Trustees may, without shareholder approval, amend our declaration of trust to increase the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and to classify or reclassify any unissued common shares or preferred shares and to set the preferences, rights and other terms of the classified or reclassified shares. As a result, our Board of Trustees may authorize the issuance of additional shares or establish a series of common or preferred shares that may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our shares, even if shareholders believe that a change of control is in their interest.

Failure to make required distributions would subject us to tax.

In order for federal corporate income tax not to apply to earnings that we distribute, each year we must distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding any net capital gain. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under the Code. Our only source of funds to make these distributions comes from distributions that we will receive from our Operating Partnership. Accordingly, we may be required to borrow or raise capital on terms, or sell assets at prices or at times we regard unfavorable or make taxable distributions of our capital shares or debt securities, to enable us to pay out enough of our REIT taxable income to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% nondeductible excise tax in a particular year.

Failure to maintain our qualification as a REIT would subject us to federal income tax and potentially to state and local taxes.

We elected to be taxed as a REIT for federal income tax purposes. However, qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which only a limited number of judicial and administrative interpretations exist. Even an inadvertent or technical mistake could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis.

Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially applicable with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax for years prior to 2018, on our taxable income at regular corporate rates and distributions to shareholders would not be deductible by us in computing our taxable income. We may also be subject to state and local taxes if we fail to qualify as a REIT. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of our shares of beneficial interest. If, for any reason, we failed to qualify as a REIT and we were not entitled to relief under certain Code provisions, we would be unable to elect REIT status for the four taxable years following the year during which we ceased to so qualify, which would negatively impact the value of our common shares.

Our TRS Lessee structure subjects us to the risk of increased hotel operating expenses that could adversely affect our operating results and our ability to make distributions to our shareholders.

Our leases with our TRS Lessees require our TRS Lessees to pay rent based in part on revenues from our hotels. Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, which would adversely affect our TRS Lessees' ability to pay rent due under the leases, including but not limited to the increases in wage and benefit costs, repair and maintenance expenses, energy costs, property taxes, insurance costs and other operating expenses.

Increases in these operating expenses can have a significant adverse impact on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Our TRS structure increases our overall tax liability.

Our TRS holding company is subject to applicable federal, state and local income tax on its taxable income, which consists of the revenues from the hotel properties leased by our TRS Lessees, net of the operating expenses for such hotel properties and rent payments to us. In certain circumstances, the ability of our TRS Lessees to deduct net interest expense could be limited. Accordingly, although our ownership of our TRS Lessees allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. The after-tax net income of our TRS holding company is available for distribution to us.

Our ownership of TRSs is limited and our transactions with our TRS will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotels that are operated by eligible independent contractors pursuant to hotel management agreements. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's gross assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRS holding company is subject to federal, foreign, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRS is and will continue to be less 20% of the value of our total gross assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRS holding company for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRS holding company and our TRS Lessees to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation discussed above or to avoid application of the 100% excise tax discussed above.

If our leases with our TRS Lessees are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we are required to satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRS Lessees, which should constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We have structured our leases, and intend to structure any future leases, so that the leases will be respected as true leases for federal income tax purposes, but there can be no assurance that the Internal Revenue Service ("IRS") will agree with this characterization, not challenge this treatment or that a court would not sustain such a challenge. If the leases were not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and likely would fail to qualify for REIT status.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to qualified dividend income payable to certain non-corporate U.S. shareholders is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including “qualified REIT dividends” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares.

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease all of our hotels to our TRS Lessees. A TRS Lessee will not be treated as a "related party tenant," and will not be treated as directly operating a lodging facility to the extent the TRS Lessee leases properties from us that are managed by an "eligible independent contractor." In addition, our TRS holding company will fail to qualify as a “taxable REIT subsidiary” if it or any of our TRS Lessees lease or own a lodging facility that is not managed by an “eligible independent contractor.”

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with a TRS Lessee must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by the TRS Lessee to be qualifying income for our REIT income test requirements and for our TRS holding company to qualify as a “taxable REIT subsidiary”. Among other requirements, in order to qualify as an eligible independent contractor, a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to monitor ownership of our shares by our property managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

Our ownership limitations may restrict or prevent you from engaging in certain transfers of our common shares.

In order to satisfy the requirements for REIT qualification, no more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year. To assist us in satisfying the requirements for our REIT qualification, our declaration of trust contains an ownership limit on each class and series of our shares. Under applicable constructive ownership rules, any common shares owned by certain affiliated owners generally will be added together for purposes of the common share ownership limit, and any shares of a given class or series of preferred shares owned by certain affiliated owners generally will be added together for purposes of the ownership limit on such class or series.

If anyone transfers shares in a way that would violate the ownership limit, or prevent us from qualifying as a REIT under the federal income tax laws, those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by us or sold to a person whose ownership of the shares will not violate the ownership limit. If this transfer to a trust fails to prevent such a violation or our continued qualification as a REIT, then the initial intended transfer shall be null and void from the outset. The intended transferee of those shares will be deemed never to have owned the shares. Anyone who acquires shares in violation of the ownership limit or the other restrictions on transfer in our declaration of trust bears the risk of suffering a financial loss when the shares are redeemed or sold if the market price of our shares falls between the date of purchase and the date of redemption or sale.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our business. Under these provisions, any income that we generate from transactions intended to hedge our interest rate or currency risks will be excluded from gross income for purposes of the 75% and 95% gross income tests applicable to REITs if the instrument hedges (i) interest rate risk on liabilities incurred to carry or acquire real estate or (ii) risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income tests applicable to REITs, and such instrument is properly identified under applicable Treasury Regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

The ability of our Board of Trustees to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.

Our declaration of trust provides that our Board of Trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders.

The ability of our Board of Trustees to change our major policies may not be in our shareholders' interest.

Our Board of Trustees determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to shareholders and our continued qualification as a REIT. Our board may amend or revise these and other policies and guidelines from time to time without the vote or consent of our shareholders. Accordingly, our shareholders will have limited control over changes in our policies and those changes could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

If we fail to maintain an effective system of internal controls, we may not be able to accurately determine our financial results or prevent fraud. As a result, our investors could lose confidence in our reported financial information, which could harm our business and the market value of our common shares.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent auditors annually issue their opinion on our internal control over financial reporting. As we grow our business and acquire new hotel properties, directly or through joint ventures, with existing internal controls that may not be consistent with our own, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common shares. In particular, we will need to establish, or cause our third party hotel managers to establish, controls and procedures to ensure that hotel revenues and expenses are properly recorded at our hotels. The existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. Any such failure could cause investors to lose confidence in our reported financial information and adversely affect the market value of our common shares or limit our access to the capital markets and other sources of liquidity.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our shares of beneficial interest. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our gross assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities that constitute qualified real estate assets and securities of our

TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our gross assets (other than government securities, securities that constitute qualified real estate assets and securities of our TRS) can consist of the securities of any one issuer, no more than 25% of the value of our assets can consist of debt of "publicly offered REITs" that is not secured by real property, and no more than 20% of the value of our total gross assets can be represented by the securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. The Tax Cuts and Jobs Act, or TCJA, significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders. Additional technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future law changes on REITs and their shareholders. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

We have not established a minimum distribution payment level and we may be unable to generate sufficient cash flows from our operations to make distributions to our shareholders at any time in the future.

We are generally required to distribute to our shareholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy. To the extent we satisfy the 90% distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. We have not established a minimum distribution payment level, and our ability to make distributions to our shareholders may be adversely affected by the risk factors described in this Form 10-K. Subject to satisfying the requirements for REIT qualification, we intend over time to make regular distributions to our shareholders. Our Board of Trustees has the sole discretion to determine the timing, form and amount of any distributions to our shareholders. Our Board of Trustees makes determinations regarding distributions based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, satisfaction of the requirements for REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our Board of Trustees may deem relevant from time to time. Among the factors that could impair our ability to make distributions to our shareholders are:

- our inability to realize attractive returns on our investments;
- unanticipated expenses that reduce our cash flow or non-cash earnings;
- decreases in the value of the underlying assets; and
-

the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to continue to make distributions to our shareholders or that the level of any distributions we do make to our shareholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our common shares. Distributions could be dilutive to our financial results and may constitute a return of capital to our investors, which would have the effect of reducing each shareholder's basis in its common shares. We also could use borrowed funds or proceeds from the sale of assets to fund distributions.

In addition, distributions that we make to our shareholders are generally taxable to our shareholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a shareholder's investment in our common shares.

Our senior unsecured revolving credit facility may limit our ability to pay dividends on common shares.

Under our senior unsecured revolving credit facility, our distributions may not exceed the greater of (i) 95% of adjusted funds from operations (as defined in our senior unsecured revolving credit facility) for the preceding four-quarter period or (ii) the amount required for us to qualify and maintain our status as a REIT. As a result, if we do not generate sufficient adjusted funds from operations during the four quarters preceding any common share dividend payment date, we would not be able to pay dividends to our common shareholders consistent with our past practice without causing a default under our senior unsecured revolving credit facility. In the event of a default under our senior unsecured revolving credit facility, we would be unable to borrow under our senior unsecured revolving credit facility and any amounts we have borrowed thereunder could become due and payable.

The market price of our equity securities may vary substantially, which may limit your ability to liquidate your investment.

The trading prices of equity securities issued by REITs have historically been affected by changes in market interest rates and other factors. One of the factors that may influence the price of our shares in public trading markets is the annual yield from distributions on our common or preferred shares as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to shareholders, may lead prospective purchasers of our shares to demand a higher annual yield, which could reduce the market price of our equity securities.

Other factors that could affect the market price of our equity securities include the following:

- actual or anticipated variations in our quarterly results of operations;
- changes in market valuations of companies in the hotel or real estate industries;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes;
- issuances of

common shares or other securities in the future;

- the addition or departure of key personnel; and
- announcements by us or our competitors of acquisitions, investments or strategic alliances or changes thereto.

Because we have a smaller equity market capitalization compared to some other hotel REITs and our common shares may trade in low volumes, the stock market price of our common shares may be susceptible to fluctuation to a greater extent than companies with larger market capitalizations. As a result, your ability to liquidate your investment in our company may be limited.

The number of shares available for future sale could adversely affect the market price of our common shares.

We cannot predict the effect, if any, of future sales of common shares, or the availability of common shares for future sale, on the market price of our common shares. Sales of substantial amounts of common shares (including shares issued to our trustees and officers), or the perception that these sales could occur, may adversely affect prevailing market prices for our common shares.

We also may issue from time to time additional common shares or common units in our Operating Partnership in connection with the acquisition of properties and we may grant demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common shares or the perception that these sales could occur may adversely affect the prevailing market price for our common shares or may impair our ability to raise capital through a sale of additional equity securities. Our Equity Incentive Plan provides for grants of equity based awards up to an aggregate of 3,000,000 common shares and we may seek to increase shares available under our Equity Incentive Plan in the future. Our New DRSPP permits the purchase of up to $50 million of our common shares through purchases and reinvestment of dividends on our common shares.

Future offerings of debt or equity securities ranking senior to our common shares or incurrence of debt (including under our credit facility) may adversely affect the market price of our common shares.

If we decide to issue debt or equity securities in the future ranking senior to our common shares or otherwise incur indebtedness (including under our credit facility), it is possible that these securities or indebtedness will be governed by an indenture or other instrument containing covenants restricting our operating flexibility and limiting our ability to make distributions to our shareholders. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges, including with respect to distributions, more favorable than those of our common shares and may result in dilution to owners of our common shares. Because our decision to issue debt or equity securities in any future offering or otherwise incur indebtedness will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings or financings, any of which could reduce the market price of our common shares and dilute the value of our common shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth certain operating information for our 42 wholly owned hotels as of December 31, 2018:

Property	Location	Management Company	Date of Acquisition	Year Opened	Number of Rooms	Purchase Price	Purchase Price per Room	Mortgage Debt Balance
Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington	Billerica, Massachusetts	IHM	4/23/2010	1999	147	$ 12.5 million	$ 85,714	$ 16.0 million
Homewood Suites by Hilton Minneapolis-Mall of America	Bloomington, Minnesota	IHM	4/23/2010	1998	144	$ 18.0 million	$ 125,000	—
Homewood Suites by Hilton Nashville-Brentwood	Brentwood, Tennessee	IHM	4/23/2010	1998	121	$ 11.3 million	$ 93,388	—
Homewood Suites by Hilton Dallas-Market Center	Dallas, Texas	IHM	4/23/2010	1998	137	$ 10.7 million	$ 78,102	—
Homewood Suites by Hilton Hartford-Farmington	Farmington, Connecticut	IHM	4/23/2010	1999	121	$ 11.5 million	$ 95,041	—
Homewood Suites by Hilton Orlando-Maitland	Maitland, Florida	IHM	4/23/2010	2000	143	$ 9.5 million	$ 66,433	—
Hampton Inn & Suites Houston-Medical Center	Houston, Texas	IHM	7/2/2010	1997	120	$ 16.5 million	$ 137,500	$ 18.0 million
Courtyard Altoona	Altoona, Pennsylvania	IHM	8/24/2010	2001	105	$ 11.3 million	$ 107,619	—
Springhill Suites Washington	Washington, Pennsylvania	IHM	8/24/2010	2000	86	$ 12.0 million	$ 139,535	—
Residence Inn Long Island Holtsville	Holtsville, New York	IHM	8/3/2010	2004	124	$ 21.3 million	$ 171,774	—
Residence Inn White Plains	White Plains, New York	IHM	9/23/2010	1982	135	$ 21.2 million	$ 159,398	—
Residence Inn New Rochelle	New Rochelle, New York	IHM	10/5/2010	2000	127	$ 21.0 million	$ 169,355	$ 13.4 million
Residence Inn Garden Grove	Garden Grove, California	IHM	7/14/2011	2003	200	$ 43.6 million	$ 218,000	$ 32.6 million
Residence Inn Mission Valley	San Diego, California	IHM	7/14/2011	2003	192	$ 52.5 million	$ 273,438	$ 27.9 million
Homewood Suites by Hilton San Antonio River Walk	San Antonio, Texas	IHM	7/14/2011	1996	146	$ 32.5 million	$ 222,603	$ 15.9 million
Residence Inn Washington DC	Washington, DC	IHM	7/14/2011	1974	103	$ 29.4 million	$ 280,000	—
Residence Inn Tysons Corner	Vienna, Virginia	IHM	7/14/2011	2001	121	$ 37.0 million	$ 305,785	$ 21.8 million
Hampton Inn Portland Downtown	Portland, Maine	IHM	12/27/2012	2011	125	$ 28.0 million	$ 229,508	—
Courtyard Houston	Houston, Texas	IHM	2/5/2013	2010	197	$ 34.8 million	$ 176,395	$ 18.0 million
Hyatt Place Pittsburgh North Shore	Pittsburgh, Pennsylvania	IHM	6/17/2013	2010	178	$ 40.0 million	$ 224,719	$ 22.0 million
Hampton Inn Exeter	Exeter, New Hampshire	IHM	8/9/2013	2010	111	$ 15.2 million	$ 136,937	—
Hilton Garden Inn Denver Tech	Denver, Colorado	IHM	9/26/2013	1999	180	$ 27.9 million	$ 155,000	—
Residence Inn Bellevue	Bellevue, Washington	IHM	10/31/2013	2008	231	$ 71.8 million	$ 316,883	$ 44.7 million
Springhill Suites Savannah	Savannah, Georgia	IHM	12/5/2013	2009	160	$ 39.8 million	$ 248,438	$ 30.0 million
Residence Inn Silicon Valley I	Sunnyvale, CA	IHM	6/9/2014	1983	231	$ 92.8 million	$ 401,776	$ 64.8 million
Residence Inn Silicon Valley II	Sunnyvale, CA	IHM	6/9/2014	1985	248	$ 102.0 million	$ 411,103	$ 70.7 million
Residence Inn San Mateo	San Mateo, CA	IHM	6/9/2014	1985	160	$ 72.7 million	$ 454,097	$ 48.6 million
Residence Inn Mountain View	Mountain View, CA	IHM	6/9/2014	1985	144	$ 56.4 million	$ 503,869	$ 37.9 million
Hyatt Place Cherry Creek	Glendale, CO	IHM	8/29/2014	1987	199	$ 32.0 million	$ 164,948	—
Courtyard Addison	Addison, TX	IHM	11/17/2014	2000	176	$ 24.1 million	$ 137,178	—
	Houston, TX	IHM	11/17/2014	2004	100	$ 20.1 million	$ 201,481	—

Courtyard West University Houston								
Residence Inn West University Houston	Houston, TX	IHM	11/17/2014	2004	120	$ 29.4 million	$ 245,363	—
Hilton Garden Inn Burlington	Burlington, MA	IHM	11/17/2014	1975	180	$ 33.0 million	$ 184,392	—
Residence Inn San Diego Gaslamp	San Diego, CA	IHM	2/25/2015	2009	240	$ 90.0 million	$ 375,000	—
Residence Inn Dedham	Dedham, MA	IHM	7/17/2015	2008	81	$ 22.0 million	$ 271,605	—
Residence Inn Il Lugano	Fort Lauderdale, FL	IHM	8/17/2015	2013	105	$ 33.5 million	$ 319,048	—
Hilton Garden Inn Marina del Rey	Marina del Rey, CA	IHM	9/17/2015	1998	136	$ 45.1 million	$ 336,194	$ 21.4 million
Hilton Garden Inn Portsmouth	Portsmouth, NH	IHM	9/20/2017	2006	131	$ 43.5 million	$ 332,061	—
Summerville Courtyard	Summerville, SC	IHM	11/15/2017	2014	96	$ 20.2 million	$ 210,417	—
Embassy Suites Springfield	Springfield, VA	IHM	12/6/2017	2013	219	$ 68.0 million	$ 310,502	—
Summerville Residence Inn	Summerville, SC	IHM	8/27/2018	2018	96	$ 20.8 million	$ 216,667	—
Dallas DT Courtyard	Dallas, TX	IHM	12/5/2018	2018	167	$ 49.0 million	$ 293,413	—
Total					**6,283**	**$1,483.9 million**	**$ 236,169**	**$503.6 million**

We lease our headquarters at 222 Lakeview Avenue, Suite 200, West Palm Beach, FL 33401. The lease for our headquarters has an initial term that expires in 2026 and the Company has an option to renew the lease for up to two successive terms of five years each. The Courtyard Altoona hotel is subject to a ground lease with an expiration of April 30, 2029 with an extension option by us of up to 12 additional terms of five years each. The Residence Inn New Rochelle hotel is subject to an air rights lease and garage lease that each expire on December 1, 2104. The Residence Inn San Diego Gaslamp hotel is subject to a ground lease with an expiration of January 31, 2065. The Hilton Garden Inn Marina del Rey hotel is subject to a ground lease with an expiration of December 31, 2067. For more information on the leases to which we or our hotels are subject, see "Item 1. Business - Operating Leases".

Item 3. Legal Proceedings

The nature of the operations of the Company's hotels exposes those hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. IHM is currently a defendant in two class action lawsuits pending in the Santa Clara County Superior Court. The first class action lawsuit was filed on October 21, 2016 under the title Ruffy, et al, v. Island Hospitality Management, LLC, et al. Case No. 16-CV-301473 and the second class action lawsuit was filed on March 21, 2018 under the title Doonan, et al, v. Island Hospitality Management, LLC, et al. Case No 18-CV-325187. The class actions relate to hotels operated by IHM in the state of California and owned by affiliates of the Company and the NewINK JV, and/or certain third parties. The complaint alleges various wage and hour law violations based on alleged misclassification of certain hotel managerial staff and violation of certain California statutes regarding incorrect information contained on employee paystubs. The plaintiffs seek injunctive relief, money damages, penalties, and interest. None of the potential classes has been certified and we are defending our case vigorously. As of December 31, 2018, included in accounts payable and accrued expenses is $0.1 million which represents an estimate of the Company’s total exposure to the litigations based on standard indemnification obligations under hotel management agreements with IHM.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common shares began trading on the NYSE, on April 16, 2010 under the symbol "CLDT".

Shareholder Information

On January 31, 2019, there wer ered holders of record of our common shares. This figure does not include beneficial owners who hold shares in nominee name. However, because many of our common shares are held by brokers and other institutions, we believe that there are many more beneficial holders of our common shares than record holders. In order to comply with certain requirements related to our qualification as a REIT, our charter, subject to certain exceptions, limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of our outstanding common shares.

31, 2013 to the NYSE closing price per share on December 31, 2018 with the cumulative total return on the Russell 2000 Index (the “Russell 2000”), the FTSE NAREIT All Equity REIT Index (the “NAREIT All Equity”) and the NAREIT Lodging/Resorts Index (the “NAREIT Lodging”). The total return values were calculated assuming a $100 investment on December 31, 2013 with reinvestment of all dividends in (i) our common shares, (ii) the Russell 2000 Index, (iii) the NAREIT All Equity REIT Index and (iv) the NAREIT Lodging/Resorts Index. The total return values include any dividends paid during the period.

	Value of initial investment at December 31, 2013	**Value of initial investment at December 31, 2014**	**Value of initial investment at December 31, 2015**	**Value of initial investment at December 31, 2016**	**Value of initial investment at December 31, 2017**	**Value of initial investment at December 31, 2018**
Chatham Lodging Trust	$ 100.00	$ 147.55	$ 109.32	$ 117.38	$ 138.55	$ 114.93
Russell 2000 Index	$ 100.00	$ 104.89	$ 100.26	$ 121.63	$ 139.44	$ 124.09
FTSE NAREIT All Equity REIT Index	$ 100.00	$ 127.15	$ 130.06	$ 142.13	$ 155.30	$ 148.94
FTSE NAREIT Lodging/Resorts Index	$ 100.00	$ 132.50	$ 100.14	$ 124.52	$ 133.45	$ 116.34

Distribution Information

In order to maintain our qualification as a REIT, we must make distributions to our shareholders each year in an amount equal to at least:

•90% of our REIT taxable income determined without regard to the dividends paid deduction and excluding net capital gains; plus
•90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code; minus
•Any excess non-cash income (as defined in the Code).

Future distributions will be at the discretion of our board of trustees and will depend on our financial performance, debt service obligations, applicable debt covenants (if any), capital expenditure requirements, maintenance of our REIT qualification and other factors as our board of trustees deems relevant.

Company on its common shares for the years ended December 31, 2018 and 2017, respectively:

	2018				2017
Common shares:					
Ordinary income	$ 1.1448	86.7%	$	1.128	85.5%
Return of capital	0.1752	13.3%	0.120		9.1%
Unrecap. Sec. 1250 Gain	—	—%	0.072		5.5%
Total	**$ 1.32**	**100%**	**$**	**1.32**	**100%**

Equity Compensation Plan Information

The following table provides information, as of December 31, 2018, relating to our Equity Incentive Plan pursuant to which grants of common share options, share awards, share appreciation rights, performance units, LTIP units and other equity-based awards options may be granted from time to time. Se our consolidated financial statements for additional information regarding our Equity Incentive Plan.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders[1]	—	—	1,400,529
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,400,529

[1] Our Equity Incentive Plan was approved by our company's sole trustee and our company's sole shareholder prior to completion of our IPO. The plan was amended and restated as of May 17, 2013 by our Board of Trustees to increase the maximum number of shares available under the plan to 3,000,000 shares. The amended and restated plan was approved by our
shareholders at our 2013 annual meeting of shareholders.

Sale of Unregistered Securities

None.

Issuer Purchases of Equity Securities

We do not currently have a repurchase plan or program in place. However, we do provide employees, who have been issued restricted common shares, the option of forfeiting shares to us to satisfy the minimum statutory tax withholding requirements on the date their shares vest. Once shares are forfeited, they are not eligible to be reissued. There were no common shares forfeited in the years ended December 31, 2018 and 2017, respectively, related to such repurchases.

Item 6. Selected Financial Data

The consolidated financial data included in the following table has been derived from the financial statements for the last five years and includes the information required by Item 301 of Regulation S-K. The selected historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and notes thereto, both included in this Annual Report on Form 10-K.

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	(In thousands, except share and per-share data)				
Statement of Operations Data:					
Total revenue	$ 324,230	$ 301,844	$ 295,871	$ 276,950	$ 197,216
Hotel operating expenses	170,562	155,679	148,777	136,994	100,961
Depreciation and amortization	48,169	46,292	48,775	48,981	34,710
Impairment loss	—	6,663	—	—	—
Property taxes, ground rent and insurance	23,678	20,916	21,564	18,581	12,624
General and administrative	14,120	12,825	11,119	11,677	9,852
Other charges	3,806	523	510	1,451	10,381
Reimbursed costs from unconsolidated real estate entities	5,743	5,908	6,190	3,743	1,992
Total operating expenses	266,078	248,806	236,935	221,427	170,520
Operating income before gain (loss) on sale of hotel property	58,152	53,038	58,936	55,523	26,696
Interest and other income	462	30	51	264	108
Interest expense, including amortization of deferred fees	(26,878)	(27,901)	(28,297)	(27,924)	(21,354)
Loss on early extinguishment of debt	—	—	(4)	(412)	(184)
Gain (loss) on sale of hotel property	(18)	3,327	—	—	—
Income (loss) from unconsolidated real estate entities	(876)	1,582	718	2,411	(3,830)
Net gain (loss) from remeasurement and sales of investment in unconsolidated real estate entities	—	—	(10)	3,576	65,750

Income before income tax benefit (expense)	30,842	30,076	31,394	33,438	67,186
Income tax benefit (expense)	28	(396)	301	(260)	(105)
Net income	$ 30,870	$ 29,680	$ 31,695	$ 33,178	$ 67,081
Net income attributable to non-controlling interest	(229)	(202)	(212)	(212) —	(208)
Net income attributable to common shareholders	$ 30,641	$ 29,478	$ 31,483	$ 32,966	$ 66,873
Income per Common Share - Basic:					
Net income attributable to common shareholders	$ .66	$ .73	$ .82	$ .87	$ 2.32
Income per Common Share - Diluted:					
Net income attributable to common shareholders	$ .66	$ .73	$ .81	$ .86	$ 2.30
Weighted average number of common shares outstanding:					
Basic	46,073,515	39,859,143	38,299,067	37,917,871	28,531,094
Diluted	46,243,660	40,112,266	38,482,875	38,322,285	28,846,724

Other Data:

Net cash provided by operating activities	86,215	86,689	87,669	81,842	49,306
Net cash used in investing activities	(96,401)	(158,411)	(15,268)	(182,363)	(452,988)
Net cash provided by (used in) financing activities	6,024	71,171	(75,509)	106,480	414,538
Cash dividends declared per common share	1.32	1.32	1.30	1.28	.93

	As of December 31, 2018 (In thousands)	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
Balance Sheet Data:					
Investment in hotel properties, net	$ 1,373,773	$ 1,320,082	$ 1,233,094	$ 1,258,452	$ 1,096,425
Cash and cash equivalents	7,192	9,333	12,118	21,036	15,077
Restricted cash	25,145	27,166	25,083	19,273	12,030
Investment in unconsolidated real estate entities	21,545	24,389	20,424	23,618	28,152
Hotel receivables (net of allowance for doubtful accounts)	4,495	4,047	4,389	4,433	3,601
Deferred costs, net	5,070	4,646	4,642	5,365	7,514
Prepaid expenses and other assets	2,431	2,523	2,778	5,052	2,300
Deferred tax asset, net	58	30	426	—	—
Total assets	$ 1,439,709	$ 1,392,216	$ 1,302,954	$ 1,337,229	$ 1,165,099
Mortgage debt, net	$ 501,782	$ 506,316	$ 530,323	$ 539,623	$ 527,721
Revolving credit facility	81,500	32,000	52,500	65,580	22,500
Accounts payable and accrued expenses	33,692	31,692	27,782	25,100	20,042
Distributions in excess of investments of unconsolidated real estate entities	9,650	6,582	6,017	2,703	—
Distributions payable	5,667	5,846	4,742	7,221	2,884
Total liabilities	632,291	582,436	621,364	640,227	573,147
Total shareholders' equity	797,466	803,162	676,742	692,871	588,537
Noncontrolling Interest in Operating Partnership	9,952	6,618	4,848	4,131	3,415
Total liabilities and equity	$ 1,439,709	$ 1,392,216	$ 1,302,954	$ 1,337,229	$ 1,165,099

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Chatham Lodging Trust ("we," "us" or the "Company") was formed as a Maryland real estate investment trust on October 26, 2009. The Company is internally-managed and was organized to invest primarily in upscale extended-stay and premium-branded select-service hotels. The Company has elected to be taxed as a real estate investment trust for federal income tax purposes ("REIT").

The Company had no operations prior to the consummation of its IPO. The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the "Operating Partnership"), in exchange for partnership interests. Substantially all of the Company's assets are held by, and all operations are conducted through, the Operating Partnership. The Company is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership ("common units"). Certain of the Company's employees hold vested and unvested long-term incentive plan units in the Operating Partnership ("LTIP units"), which are presented as non-controlling interests on our consolidated balance sheets.

As of December 31, 2018, the Company owned 42 hotels with an aggregate of 6,283 rooms located in 15 states and the District of Columbia. The Company also (i) held a 10.3% noncontrolling interest in a joint venture (the "NewINK JV") with affiliates of Colony Capital, Inc. ("CLNY"), which was formed in the second quarter of 2014 to acquire 47 hotels from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management ("Cerberus"), comprising an aggregate of 6,098 rooms and (ii) held a 10.0% noncontrolling interest in a separate joint venture (the "Inland JV") with CLNY, which was formed in the fourth quarter of 2014 to acquire 48 hotels from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes use the term "JVs" which refers collectively to the NewINK JV and the Inland JV.

To qualify as a REIT, the Company cannot operate its hotels. Therefore, the Operating Partnership and its subsidiaries lease each of the Company's wholly owned hotels to a taxable REIT subsidiary lessee ("TRS Lessee"), which is wholly owned by the Company's taxable REIT subsidiary ("TRS") holding company. The Company indirectly (i) owns its 10.3% interest in the 47 NewINK JV hotels and (ii) 10.0% interest in the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns or owned as applicable, noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of December 31, 2018, Island Hospitality Management Inc. ("IHM"), which is 51% owned by Mr. Fisher, managed all 42 of the Company's wholly owned hotels. As of December 31, 2018, all of the NewINK JV hotels were managed by IHM. As of December 31, 2018, 34 of the Inland JV hotels were managed by IHM and 14 hotels were managed by Marriott International, Inc. ("Marriott").

Financial Condition and Operating Performance Metrics

We measure financial condition and hotel operating performance by evaluating financial metrics and measures such as:

- Revenue Per Available Room ("RevPAR"),
- Average Daily Rate ("ADR"),
- Occupancy,
- Funds From Operations ("FFO"),
- Adjusted FFO,
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"),
- EBITDA*re*,
- Adjusted EBITDA, and
- Adjusted Hotel EBITDA.

41

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel's contribution toward providing income to our shareholders through increases in distributable cash flow and increasing long-term total returns through appreciation in the value of our common shares. RevPAR, ADR and Occupancy are hotel industry measures commonly used to evaluate operating performance. RevPAR, which is calculated as total room revenue divided by total number of available rooms, is an important metric for monitoring hotel operating performance, and more specifically hotel revenue.

"Non-GAAP Financial Measures" herein provides a detailed discussion of our use of FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA and a reconciliation of FFO, Adjusted FFO, EBITDA, Adjusted EBITDA and Adjusted Hotel EBITDA to net income or loss, measurements recognized by generally accepted accounting principles in the United States ("GAAP").

Industry outlook

We believe that the lodging industry's performance is correlated to the performance of the economy overall, and specifically key economic indicators such as GDP growth, employment trends, corporate travel and corporate profits. Trends for many of these indicators appear to be healthy. Lodging industry performance is also impacted by room supply growth, which is currently elevated in the Upscale segment in which most of our hotels operate. Overall U.S. room supply increa 2018, but supply in the Upscale segment increas 2018. Smith Travel Research is projecting U.S. hotel supply growth to increas in 2019. Continued supply growth could negatively impact RevPAR growth. We are currently projecting 2019 RevPAR change of -1.5% to +0.5% as compared to 2018.

Comparison of the year ended December 31, 2018 ("2018") to the year ended December 31, 2017 ("2017")

Results of operations for the year ended December 31, 2018 include the operating activities of our 42 wholly owned hotels and our investments in the NewINK JV and Inland JV. We acquired two hotels in the year ended December 31, 2018. We acquired the Residence Inn by Marriott Summerville, SC on August 27, 2018 and the Courtyard by Marriott Dallas Downtown, TX on December 5, 2018. We acquired three hotels and sold one hotel in the year ended December 31, 2017. We acquired the Hilton Garden Inn Portsmouth, NH on September 20, 2017, the Courtyard by Marriott Summerville, SC on November 15, 2017, and the Embassy Suites Springfield, VA on December 6, 2017. The Homewood Suites Carlsbad, CA was sold on December 20, 2017. Accordingly, the comparisons below are influenced by the fact that two wholly owned hotels were owned by us for only a portion of the year ended December 31, 2018 and three wholly owned hotels were owned by us for only a portion of the year ended December 31, 2017.

Revenue

Revenue, which consists primarily of room, food and beverage and other operating revenues from our wholly owned hotels, was as follows for the periods indicated (dollars in thousands):

	Year ended December 31, 2018	December 31, 2017	% Change
Room	$ 295,897	$ 278,466	6.3%
Food and beverage	8,880	6,255	42.0%
Other	13,710	11,215	22.2%
Cost reimbursements from unconsolidated real estate entities	5,743	5,908	(2.8)%

Total revenue	$	324,230	$	301,844	7.4%

Total revenue increased $22.4 million to $324.2 million for the year ended December 31, 2018 compared to total revenue of $301.8 million for the 2017 period. Total revenue related to the three hotels acquired during 2017 contributed $23.5 million of the increase, the two hotels acquired in 2018 contributed $1.1 million of the increase, the 37 comparable hotels owned by the Company throughout the 2017 and 2018 periods contributed $4.7 million, while the sale of one hotel in 2017 reduced revenue by $6.9 million. Since our hotels are primarily select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 91.3% and 92.3%, respectively, of total revenue for the years ended December 31, 2018 and December 31, 2017. Room revenue was $295.9 million and $278.5 million for the years ended December 31, 2018 and 2017, respectively, the three hotels acquired during 2017 contributed $20.4 million of the increase, the two hotels acquired in 2018 contributed $1.1 million of the increase, the 37 comparable hotels owned by the Company throughout the 2017 and 2018 periods contributed $2.7 million or 1.0%, driven primarily by RevPAR increase of 0.9%, while the sale of one hotel in 2017 reduced room revenue by $6.8 million.

Food and beverage revenue was $8.9 million and $6.3 million for the years ended December 31, 2018 and 2017. Food and beverage revenue related to the hotels acquired in 2017 contributed $2.2 million of the increase.

Other revenue comprised of parking, meeting room, gift shop, in-room movie and other ancillary amenities revenue, was up $2.5 million for the year ended December 31, 2018. The increase was primarily due to increases in parking and miscellaneous income. Hotels acquired in 2017 contributed $0.8 million to the increase in other revenue.

Cost reimbursements from unconsolidated real estate entities, comprised of payroll costs at the JVs and an entity, Castleblack Owner Holding, LLC ("Castleblack"), which is 97.5% owned by affiliates of CLNY and 2.5% by Mr. Fisher, where the Company is the employer, were $5.7 million and $5.9 million respectively, for the years ended December 31, 2018 and 2017. The cost reimbursements were offset by the reimbursed costs from unconsolidated real estate entities included in operating expenses.

As reported by Smith Travel Research, industry RevPAR for the years ended December 31, 2018 and 2017 increased 2.9% and 3.0%, respectively, as compared to the years ended December 31, 2017 and 2016. RevPAR at our wholly owned hotels increased 0.9% in 2018 and increased 0.7% in 2017 as compared to the respective prior year periods regardless of ownership. Our RevPAR was lower than the overall industry growth due to lower growth in our specific markets primarily due to new supply.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR results for the 40 hotels wholly owned by the Company as of December 31, 2018 and that have been in operation for a full year reflect the performance of the hotels during the entire period regardless of our ownership during the periods presented, which is a non-GAAP financial measure. Results for the hotels for the periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

	For the years ended December 31,				Percentage Change	
	2018		**2017**			
	Same Property (40 hotels)	**Actual (42 hotels)**	**Same Property (40 hotels)**	**Actual (41 hotels)**	**Same Property (40 hotels)**	**Actual (42/41 hotels)**
Occupancy	80.5%	79.7 %	79.7%	79.9%	1.0%	(.3)%
ADR	$ 166.74	$ 166.48	$ 166.83	$ 166.41	(.1)%	—%
RevPAR	$ 134.19	$ 132.76	$ 133.04	$ 132.92	0.9%	(.1)%

RevPAR increased 0.9% due to an increase in occupancy of 1.0% and a decrease in ADR of 0.1%.

Hotel Operating Expenses

Hotel operating expenses consisted of the following for the periods indicated (dollars in thousands):

	Year ended December 31, 2018	December 31, 2017	% Change
Hotel operating expenses:			
Room	$ 63,877	$ 59,151	8.0%
Food and beverage expense	7,312	5,342	36.9%
Telephone expense	1,766	1,647	7.2%
Other expense	3,296	2,886	14.2%
General and administrative	25,567	23,639	8.2%
Franchise and marketing fees	24,864	23,247	7.0%
Advertising and promotions	6,227	5,380	15.7%
Utilities	10,835	9,944	9.0%
Repairs and maintenance	14,710	13,317	10.5%
Management fees	10,754	9,898	8.6%
Insurance	1,354	1,228	10.3%
Total hotel operating expenses	$ 170,562	$ 155,679	9.6%

Hotel operating expenses increased $14.9 million, or 9.6% to $170.6 million for the year ended December 31, 2018 from $155.7 million for the year ended December 31, 2017. The increase in total hotel operating expenses attributable to the three hotels acquired in 2017 was $13.8 million and the two new hotels acquired in 2018 was $0.9 million, while the remaining hotels contributed $4.3 million to the increase offset by a reduction of $4.1 million from the one hotel that was sold in 2017.

Room expenses, which are the most significant component of hotel operating expenses, increased $4.7 million from$59.2 million in 2017 to $63.9 million in 2018. Total room expenses related to the hotels acquired in 2017 and 2018 contributed $4.5 million and $0.3 million, respectively, to the increase, while the remaining hotels contributed $1.8 million to the increase offset by a reduction of $1.9 million from the one hotel sold in 2017. The increase in rooms expense at the 37 comparable hotels was due primarily to increased labor and benefit costs.

The remaining hotel operating expenses increased $10.2 million, or 10.5%, from $96.5 million in 2017 to $106.7 million in 2018. The increase attributable to the three hotels acquired in 2017 was $9.3 million, the two hotels acquired in 2018 was $0.6 million, while the remaining hotels had an increase of $2.5 million offset by the hotel sold in 2017 of $2.2 million. Food and beverage expense increased due to the Hilton Garden Inn Portsmouth and Embassy Suites Springfield hotels acquired in 2017 that have food and beverage operations. Most of our other hotels have limited for sale food and beverage activities. Increases attributed to the remaining hotels acquired before 2017 related to increased franchise and management fees related to increased revenues, as well as increases in utilities costs and repair and maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense increased $1.9 million from $46.3 million for the year ended December 31, 2017 to $48.2 million for the year ended December 31, 2018. The increase attributable to the three hotels acquired in 2017 was $3.4 million and the increase attributable to the two hotels acquired in 2018 was $0.3 million, while the decrease attributable to the remaining hotels of $0.8 million was due to some assets being fully depreciated. The sale of a hotel in 2017 contributed $1.0 million to the decrease in depreciation expense. Depreciation is recorded on our assets generally 40 years for buildings, 20 years for land improvements, 5 to 20 years for building improvements and one to ten years for hotel furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

Impairment loss

Impairment loss was zero for the year ended December 31, 2018, compared to $6.7 million for the year ended December 31, 2017. The Company recorded an impairment at our Washington SHS, PA hotel during the year ended December 31, 2017.

Property Taxes and Insurance

Total property taxes and insurance expenses increased $2.8 million from $20.9 million for the year ended December 31, 2017 to $23.7 million for the year ended December 31, 2018. The increase related to the hotels acquired in 2017 and 2018 was $1.3 million and $0.2 million, respectively, while the remaining hotels increased $1.3 million primarily attributable to successful real estate tax appeals at some of our properties that were recorded in 2017.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of LTIP units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of $4.2 million and $3.8 million for the years ended December 31, 2018 and 2017, respectively) increased $0.9 million, or 10%, to $9.9 million in 2018 from $9.0 million in 2017, with the increase primarily due to salaries, professional fees and franchise taxes.

Other Charges

Other charges increased from $0.5 million for the year ended December 31, 2017 to $3.8 million for the year ended December 31, 2018. The 2018 costs primarily consisted of the write off of previous expenditures related to previously planned expansions at several of our Silicon Valley hotels. The Company has decided not to continue with these expansions at this time and has expensed the costs associated with the planning of these expansions.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll and office rent costs of the NewINK JV and Inland JV and an entity which is 2.5% owned by Mr. Fisher, where the Company is the employer, were $5.7 million and $5.9 million for the years ended December 31, 2018 and 2017, respectively. The decrease is primarily attributable to decreases in shared office expenses. These reimbursed costs were offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income increased from $30.0 thousand for the year ended December 31, 2017 to $462.0 thousand for the year ended December 31, 2018. The increase is primarily related to fees received for providing services to an entity which is 97.5% owned by CLNY.

Interest Expense, Including Amortization of Deferred Fees

Interest expense decreased $0.9 million, or 3.7%, from $27.9 million for the year ended December 31, 2017 to $26.9 million for the year ended December 31, 2018. Interest expense is comprised of the following (dollars in thousands):

	Year ended		
	December 31, 2018	**December 31, 2017**	**% Change**

Mortgage debt interest	$	23,911	$	24,977	(4.3)%
Credit facility interest	1,321		1,577		(16.2)%
Other fees	735		692		6.2%
Amortization of deferred financing costs	911		655		39.1%
Total	**$**	**26,878**	**$**	**27,901**	**(3.7)%**

The decrease in interest expense for the year ended December 31, 2018 as compared to year ended December 31, 2017 is primarily due to lower principal balances on our mortgage debt and the sale of the Carlsbad hotel which was encumbered by mortgage debt. Interest expense on the Company's senior unsecured revolving credit facility decreased due to a decrease in utilization of the credit facility for the year ended December 31, 2018 as compared to year ended December 31, 2017.

Gain on Sale of Hotel Property

Gain on sale of hotel property decreased $3.3 million for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to the sale of the Homewood Suites Carlsbad hotel on December 20, 2017 and no comparable sale in 2018.

Income (loss) from Unconsolidated Real Estate Entities

Income (loss) from unconsolidated real estate entities decreased $2.5 millions from income of $1.6 million for the year ended December 31, 2017 to a loss of $0.9 million for the year ended December 31, 2018. The decrease is due primarily to an increase in interest expense and amortization expense related to the floating rate debt at each JV and an impairment loss at one NewINK JV hotel.

Income Tax Benefit (Expense)

Income tax changed from an expense of $0.4 million for the year ended December 31, 2017 to a benefit of $28.0 thousand for the year ended December 31, 2018.

Net Income

Net income was $30.9 million for the year ended December 31, 2018, compared to net income of $29.7 million for the year ended December 31, 2017. The decrease in our net income was due to the factors discussed above.

Comparison of the year ended December 31, 2017 ("2017") to the year ended December 31, 2016 ("2016")

Results of operations for the year ended December 31, 2017 include the operating activities of our 40 wholly owned hotels and our investments in the NewINK JV and Inland JV. We acquired three hotels in the year ended December 31, 2017. Accordingly, the comparisons below are influenced by the fact that three wholly owned hotels were owned by us for only a portion of the year ended December 31, 2017. We acquired the Hilton Garden Inn Portsmouth, NH on September 20, 2017, the Courtyard by Marriott Summerville, SC on November 15, 2017 and the Embassy Suites Springfield, VA on December 6, 2017. The Homewood Suites Carlsbad, CA was sold on December 20, 2017.

Revenues

Revenue, which consists primarily of the room, food and beverage and other operating revenues from our hotels, was as follows for the periods indicated (dollars in thousands):

	Years Ended		
	December 31, 2017	**December 31, 2016**	**% Change**
Room	$ 278,466	$ 273,345	1.9 %
Food and beverage	6,255	6,221	.5 %
Other	11,215	10,115	10.9 %
Cost reimbursements	5,908	6,190	(4.6) %

from unconsolidated real estate entities					
Total revenue	$	301,844	$	295,871	2.0%

Total revenue increased $5.9 million to $301.8 million for the year ended December 31, 2017 compared to total revenue of $295.9 million for the 2016 period. Total revenue related to the three hotels acquired during 2017 contributed $3.5 million of the increase. Since all of our hotels are primarily select service or limited service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue was $278.5 million and $273.3 million for the years ended December 31, 2017 and 2016, respectively, with $2.9 million of this increase attributable to the three hotels acquired in 2017. The room revenue from the remaining properties owned for all of 2017 including the Carlsbad hotel increased $2.3 million.

As reported by Smith Travel Research, industry RevPAR for the years ended December 31, 2017 and 2016 increased 3.0% and 3.2%, respectively, as compared to the years ended December 31, 2016 and 2015. RevPAR at our wholly owned hotels increased 1.0% in the 2017 and 2016 periods as compared to the respective prior periods regardless of ownership. Our RevPAR was lower than the overall industry growth due to lower growth in our specific markets primarily due to new supply.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR results for the 40 wholly owned by the Company as of December 31, 2017, reflect the performance of the hotels during the entire period regardless of our ownership during the periods presented, which is a non-GAAP financial measure. The Homewood Suites Carlsbad hotel is included in actual Occupancy, ADR and RevPAR through the date of sale. Results for the hotels for the periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

	For the years ended December 31,				Percentage Change	
	2017		**2016**			
	Same Property (40 hotels)	**Actual (41 hotels)**	**Same Property (40 hotels)**	**Actual (38 hotels)**	**Same Property (40 hotels)**	**Actual (41/38 hotels)**
Occupancy	79.8%	79.9 %	80.7%	80.6%	(1.1)%	(0.9)%
ADR	$ 166.82	$ 166.40	$ 163.74	$ 162.89	1.9%	2.2%
RevPAR	$ 133.05	$ 132.93	$ 132.13	$ 131.32	0.7%	1.2%

Food and beverage revenue was $6.3 million and $6.2 million for the years ended December 31, 2017 and 2016, respectively. For 2017, $0.4 million of the increase relates to the hotels acquired in 2017 and a decrease of $0.3 million relates to the remaining properties. Food and beverage revenue increased due to the Hilton Garden Inn Portsmouth and Embassy Suites Springfield hotels acquired in 2017 that have food and beverage operations. Most of our other hotels have limited for sale food and beverage activities.

Other operating revenue, comprised of meeting room, parking, guaranteed no show bookings, restaurant lease income, gift shop, in-room movie and other ancillary amenities revenue, was $11.2 million and $10.1 million for the years ended December 31, 2017 and 2016, respectively. Total other operating revenue related to the three hotels acquired in 2017 contributed $0.2 million of the increase with the remainder coming from the hotel properties owned for all of 2017 primarily due to no show bookings, restaurant lease income, meeting rooms, miscellaneous room revenue and parking.

Cost reimbursements from unconsolidated real estate entities, comprised of corporate payroll, office rent and insurance costs at the NewINK JV, Inland JV and an entity which is 2.5% owned by Mr. Fisher, where the Company is the employer, were $5.9 million and $6.2 million for the years ended December 31, 2017 and 2016, respectively. The decrease is primarily attributable to decreases in salaries. These cost reimbursements were offset by the reimbursed costs from unconsolidated real estate entities included in operating expenses.

Hotel Operating Expenses

Hotel operating expenses consisted of the following for the periods indicated (dollars in thousands):

	Years Ended December 31, 2017	December 31, 2016	% Change
Hotel operating expenses:			
Room	$ 59,151	$ 57,209	3.4 %
Food and beverage expense	5,342	4,928	8.4 %
Telephone expense	1,647	1,712	(3.8)%
Other expense	2,886	2,358	22.4 %
General and administrative	23,639	22,274	6.1 %
Franchise and marketing fees	23,247	22,412	3.7 %
Advertising and promotions	5,380	5,147	4.5 %
Utilities	9,944	9,545	4.2 %
Repairs and maintenance	13,317	12,444	7.0 %
Management fees	9,898	9,389	5.4 %
Insurance	1,228	1,359	(9.6)%
Total hotel operating expenses	$ 155,679	$ 148,777	4.6 %

Hotel operating expenses increased $6.9 million, or 4.6% to $155.7 million for the year ended December 31, 2017 from $148.8 million for the year ended December 31, 2016. The increase in total hotel operating expenses attributable to the three hotels acquired in 2017 contributed $2.1 million while the remaining hotels contributed $4.8 million to the increase.

Room expenses, which are the most significant component of hotel operating expenses, increased $2.0 million from $57.2 million in 2016 to $59.2 million in 2017. Total room expenses related to the three hotels acquired in 2017 contributed $0.6 million to the increase, while the remaining hotels contributed $1.4 million to the increase. The increase in rooms expense was due primarily to increased wages.

The remaining hotel operating expenses increased $5.0 million, or 5.3%, from $91.6 million in 2016 to $96.5 million in 2017. The increase attributable to the three hotels acquired in 2017 was $1.5 million while the remaining hotels had an increase of $3.4 million. Food and beverage expense increased due to the Hilton Garden Inn Portsmouth and Embassy Suites Springfield hotels acquired in 2017 that have food and beverage operations. Most of our other hotels have limited for sale food and beverage activities. Increases attributed to the remaining hotels acquired before 2017 related to franchise and management fees related to increased revenues, utilities costs and repair costs.

Depreciation and Amortization

Depreciation and amortization expense decreased $2.5 million from $48.8 million for the year ended December 31, 2016 to $46.3 million for the year ended December 31, 2017. The increase attributable to the three hotels acquired in 2017 is $0.5 million, while the decrease attributable to the remaining hotels of $3.0 million was due to some assets being fully depreciated. Depreciation is recorded on our assets generally over 40 years for buildings, 20 years for land improvements, 5 to 20 years for building improvements and one to ten years for hotel furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

Impairment loss

Impairment loss was $6.7 million for the year ended December 31, 2017, compared to zero for the year ended December 31, 2016. The Company recorded an impairment at our Washington SHS, PA hotel during the year ended December 31, 2017.

Property Taxes and Insurance

Total property taxes and insurance expenses decreased $0.7 million from $21.6 million for the year ended December 31, 2016 to $20.9 million for the year ended December 31, 2017. The increase related primarily to the three hotels acquired in 2017 was $0.1 million and the remaining hotels decreased $0.8 million primarily attributable to successful real estate tax appeals at some of our properties.

General and Administrative

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of LTIP units. These expenses also include corporate operating costs, professional fees and trustees’ fees. Total general and administrative expenses (excluding amortization of stock based compensation of $3.8 million and $3.0 million for the years ended December 31, 2017 and 2016, respectively) increased $0.9 million, or 11.1%, to $9.0 million in 2017 from $8.1 million in 2016, with the increase primarily due to salaries, professional fees, entity taxes, travel and office expenses.

Other Charges

In 2017 we adopted Financial Accounting Standards Board ("FASB") ASU 2017-01 and began capitalizing acquisition related costs. Prior to 2017 acquisition related costs were expensed as incurred. Other charges remained level from $0.5 million for the year ended December 31, 2016 to $0.5 million for the year ended December 31, 2017. The 2017 costs primarily consisted of the Company's share of expense related to a class action lawsuit in California (See Legal Proceedings in Part I). The property acquisition costs in the 2016 period related to a prior acquisition for which final amounts were more than previously accrued.

Reimbursed Costs from Unconsolidated Real Estate Entities

Reimbursed costs from unconsolidated real estate entities, comprised of corporate payroll and office rent costs at the NewINK JV and Inland JV and an entity which is 2.5% owned by Mr. Fisher, where the Company is the employer, were $5.9 million and $6.2 million for the year ended December 31, 2017 and 2016, respectively. The decrease is primarily attributable to decreases in salaries. These reimbursed costs were offset by the cost reimbursements from unconsolidated real estate entities included in revenues.

Interest and Other Income

Interest on cash and cash equivalents and other income decreased $21.0 thousand from $51.0 thousand for the year ended December 31, 2016 to $30.0 thousand for the year ended December 31, 2017.

Interest Expense, Including Amortization of Deferred Fees

Interest expense decreased $0.4 million, or 1.4%, from $28.3 million for the year ended December 31, 2016 to $27.9 million for the year ended December 31, 2017. Interest expense is comprised of the following (dollars in thousands):

	Years Ended December 31, 2017	**December 31, 2016**	**% Change**
Mortgage debt interest	$ 24,977	$ 25,250	(1.1)%
Credit facility interest	1,577	1,307	20.7%

Other fees	692	657	5.3 %
Amortization of deferred financing costs	655	1,083	(39.5)%
Total	**$ 27,901**	**$ 28,297**	**(1.4)%**

49

The decrease in interest expense for the year ended December 31, 2017 as compared to the year ended December 31, 2016 is primarily due to a change in amortization for deferred financing fees. Interest expense on the Company's senior unsecured revolving credit facility increased due to an increase in LIBOR for the year ended December 31, 2017 as compared to the year ended December 31, 2016. Mortgage debt decreased primarily due to lower principal balances on our mortgage debt.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt decreased to zero for the year ended December 31, 2017 from $4 thousand for the year ended December 31, 2016 due to paying off the loan associated with the Altoona hotel in January 2016 instead of at the maturity date of April 2016.

Gain on Sale of Hotel Property

Gain on sale of hotel property increased $3.3 million for the year ended December 31, 2017 compared to the year ended December 31, 2016 due to the sale of the Homewood Suite Carlsbad hotel on December 20, 2017 and no comparable sale in 2016.

Income from Unconsolidated Real Estate Entities

Income from unconsolidated real estate entities increased $0.9 million from $0.7 million for the year ended December 31, 2016 to $1.6 million for the year ended December 31, 2017. The increase is due primarily to an increase in the basis adjustment amortization from $0.6 million in 2016 to $1.6 million in 2017.

Income (loss) on Sale from Unconsolidated Real Estate Entities

Income (loss) on sale from unconsolidated real estate entities decreased to zero from a loss of $10 thousand for the year ended December 31, 2016 due to finalizing the prorations of the sale of the Torrance JV in December 2015. There were no sales of unconsolidated real estate entities in 2017.

Income Tax Benefit (Expense)

Income tax benefit (expense) changed from a benefit of $0.3 million for the year ended December 31, 2016 to an expense of $0.4 million for the year ended December 31, 2017. The change was due to the valuation allowance that was established in 2017. On December 22, 2017, the TCJA was enacted. The TCJA includes a number of changes to the existing U.S. tax code, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. Changes in tax rates and tax laws are accounted for in the period of enactment. Therefore, as a result of the TCJA being signed into law, the net deferred tax assets before valuation allowance were reduced by $0.6 million with a corresponding net adjustment to current year tax expense for the remeasurement of the Company’s U.S. net deferred tax assets. Our federal income tax expense for periods beginning in 2018 will be based on the new rate.

Net Income

Net income was $29.7 million for the year ended December 31, 2017, compared to a net income of $31.7 million for the year ended December 31, 2016. The increase in our net income was due to the factors discussed above.

Material Trends or Uncertainties

We are not aware of any material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either the capital resources or the revenues or income to be derived from the acquisition and operation of properties, loans and other permitted investments, other than those referred to in this section and the risk factors identified in the “Risk Factors” section of this Annual Report on this Form 10-K.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our operating performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) EBITDA*re*, (5) Adjusted EBITDA and (6) Adjusted Hotel EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as prescribed by GAAP as a measure of our operating performance.

FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not represent cash generated from operating activities under GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA or Adjusted Hotel EBITDA indicative of funds available to fund our cash needs, including our 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, Adjusted FFO, EBITDA, EBITDA*re*, Adjusted EBITDA and Adjusted Hotel 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.

We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, impairment write-downs, the cumulative effect of changes in accounting principles, plus depreciation and amortization (excluding amortization of deferred financing costs), and after adjustments for unconsolidated partnerships and joint ventures following the same approach. We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it measures our performance without regard to specified non-cash items such as real estate depreciation and amortization, gain or loss on sale of real estate assets and certain other items that we believe are not indicative of the property level performance of our hotel properties. We believe that these items reflect historical cost of our asset base and our acquisition and disposition activities and are less reflective of our ongoing operations, and that by adjusting to exclude the effects of the items, FFO is useful to investors in comparing our operating performance between periods and between REITs that report FFO using the NAREIT definition.

We calculate Adjusted FFO by further adjusting FFO for certain additional items that are not addressed in NAREIT’s definition of FFO, including other charges, losses on the early extinguishment of debt and similar items related to our unconsolidated real estate entities that we believe do not represent costs related to hotel operations. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that make similar adjustments to FFO.

The following is a reconciliation of net income to FFO and Adjusted FFO for the years ended December 31, 2018, 2017 and 2016 (in thousands, except share data):

	For the year ended December 31,					
	2018		2017		2016	
Funds From Operations (“FFO”):						
Net income	$	30,870	$	29,680	$	31,695
Loss (gain) on sale of hotel property	18		(3,327)		—	
Loss on sale from unconsolidated real estate entities	—		—		10	
Depreciation	47,932		46,060		48,562	
Impairment loss	—		6,663		—	
	6,992		6,600		8,186	

Adjustments for unconsolidated real estate entity items			
FFO attributed to common share and unit holders	85,812	85,676	88,453
Other charges	3,806	523	510
Loss on early extinguishment of debt	—	—	4
Adjustments for unconsolidated real estate entity items	1,078	96	25
Adjusted FFO attributed to common share and unit holders	$ 90,696	$ 86,295	88,992
Weighted average number of common shares and units			
Basic	46,428,387	40,138,856	38,556,842
Diluted	46,598,532	40,391,978	38,740,650

Diluted weighted average common share count used for calculation of adjusted FFO per share may differ from diluted weighted average common share count used for calculation of GAAP Net Income per share by LTIP units, which may be converted to common shares of beneficial interest and if Net Income per share is negative and Adjusted FFO is positive. Unvested restricted shares and unvested LTIP units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share for the periods where a loss has been recorded because they would have been anti-dilutive for the periods presented.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; (3) depreciation and amortization; and (4) unconsolidated real estate entity items including interest, depreciation and amortization excluding gains and losses from sales of real estate. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

In addition to EBITDA, we present EBITDA*re* in accordance with NAREIT guidelines, which defines EBITDA*re* as net income or loss excluding interest expense, income tax expense, depreciation and amortization expense, gains or losses from sales of real estate, impairment, e believe that the presentation of EBITDA*re* provides useful information to investors regarding the Company's operating performance and can facilitate comparison of operating performance between periods and between REITs.

We also present Adjusted EBITDA which includes additional adjustments for items such as other charges, gains or losses on extinguishment of indebtedness, amortization of share-based compensation and certain other expenses that we consider outside the normal course of operations. We believe that Adjusted EBITDA provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income, EBITDA and EBITDA*re*, is beneficial to an investor's understanding of our performance.

The following is a reconciliation of net income to EBITDA, EBITDA*re* and Adjusted EBITDA for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	For the year ended December 31,		
	2018	**2017**	**2016**
Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”):			
Net income	$ 30,870	$ 29,680	$ 31,695
Interest expense	26,878	27,901	28,297
Income tax (benefit) expense	(28)	396	(301)
Depreciation and amortization	48,169	46,292	48,775
Adjustments for unconsolidated real estate entity items	16,495	14,650	15,908
EBITDA	122,384	118,919	124,374
Impairment loss	—	6,663	—
Loss on sale from unconsolidated real estate entities	—	—	10
Loss (gain) on sale of hotel	18	(3,327)	—

property			
EBITDA*re*	122,402	122,255	124,384
Other charges	3,806	523	510
Loss on early extinguishment of debt	—	—	4
Adjustments for unconsolidated real estate entity items	1,081	136	62
Share based compensation	4,210	3,784	3,013
Adjusted EBITDA	$ 131,499	$ 126,698	$ 127,973

Adjusted Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, corporate general and administrative, impairment loss, loss on early extinguishment of debt, other charges, interest and other income, loses on sales of hotel properties and income or loss from unconsolidated real estate entities. We present Adjusted Hotel EBITDA because we believe it is useful to investors in comparing our hotel operating performance between periods and comparing our Adjusted Hotel EBITDA margins to those of our peer companies. Adjusted Hotel EBITDA represents the results of operations for our wholly owned hotels only.

The following is a presentation of Adjusted Hotel EBITDA for the years ended December 31, 2018, 2017 and 2016 (in thousands):

		For the year ended December 31, 2018	2017	2016
Net income		30,870	29,680	31,695
Add:	Interest expense	26,878	27,901	28,297
	Income tax expense	—	396	—
	Depreciation and amortization	48,169	46,292	48,775
	Corporate general and administrative	14,120	12,825	11,119
	Other charges	3,806	523	510
	Impairment loss	—	6,663	—
	Loss from unconsolidated real estate entities	876	—	—
	Loss on sale of hotel property	18	—	4
	Loss on sale from unconsolidated real estate entities	—	—	10
Less:	Interest and other income	(462)	(30)	(51)
	Gain on sale of hotel property	—	(3,327)	—
	Income from unconsolidated real estate entities	—	(1,582)	(718)
	Income tax benefit	(28)	—	(301)
Adjusted Hotel EBITDA		$ 124,247	$ 119,341	$ 119,340

•Although we present FFO, Adjusted FFO, EBITDA, EBITDA