

HERSHA HOSPITALITY TRUST
Form 10-Q/A
October 26, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
Amendment No. 1
(Mark One)

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

For the quarterly period ended September 30, 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: 001-14765

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

251,811,499

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

44 Hersha Drive, Harrisburg, PA

17102

(Address of Registrant's Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (717) 236-4400

Indicate by check mark whether the registrant (i) 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 (ii) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Small 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. Yes No

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

As of October 25, 2018, the number of Class A common shares of beneficial interest outstanding was 39,423,763 and there were no Class B common shares of beneficial interest outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this "Amendment") is being filed for the purposes of amending the Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") in Item 2 of Part I, of Hersha Hospitality Trust's (the "Company") Quarterly Report on Form 10-Q for the three and nine months ended on September 30, 2018 (the "Original Form 10-Q"), filed with the Securities and Exchange Commission on October 24, 2018, to correct:

the operating results for the comparable consolidated hotels for the nine months ended September 30, 2018, as reflected in the table below:

	Original Form 10-Q			Amended Form 10-Q		
	Nine Months Ended, September 30, 2018			Nine Months Ended, September 30, 2018		
	2017	Variance	2017	2017	Variance	
	(\$'s in 000's except ADR and RevPAR)					
Occupancy	81.9%	-119 bps	83.1%	82.6%	-97 bps	83.6%
Average Daily Rate (ADR)	\$226.44	2.7%	\$220.41	\$225.75	2.6%	\$220.11
Revenue Per Available Room (RevPAR)	\$185.45	1.3%	\$183.12	\$186.52	1.4%	\$184.01
Room Revenues	\$391,604	1.4%	\$386,391	\$289,474	1.4%	\$285,578
Total Revenues	\$484,627	2.2%	\$474,014	\$357,455	2.5%	\$348,891

the RevPAR growth of the comparable consolidated hotels for the nine months ended September 30, 2018 from 1.3% to 1.4%; and

the RevPAR growth of the Company's hotels in Philadelphia, Boston, New York City, the West Coast, and Florida for the nine months ended September 30, 2018 from 2.6%, 3.3%, 5.0%, 4.0%, and 7.1%, respectively, to 1.7%, 3.4%, 5.5%, 4.0%, and 11.0%, respectively.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Amendment also contains new certifications pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Except as described above, this Amendment does not amend, update or change any other items or disclosures in the Original Form 10-Q, and does not purport to reflect any information or events subsequent to the filing thereof. Accordingly, this Amendment should be read in conjunction with the Original Form 10-Q.

Hersha Hospitality Trust
Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> 2.	<u>4</u>
PART II. OTHER INFORMATION	
Item <u>Exhibits.</u> 6.	<u>24</u>
<u>Signatures.</u>	<u>25</u>

PART I. FINANCIAL INFORMATION

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

Cautionary Statement Regarding Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words, "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" and of similar import. Such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this and other reports filed by us with the SEC, including, but not limited to those discussed in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2017, that could cause actual results to differ. Statements regarding the following subjects are forward-looking by their nature:

- our business or investment strategy;
- our projected operating results;
- our distribution policy;
- our liquidity;
- completion of any pending transactions;
- our ability to obtain future financing arrangements or refinance or extend the maturity of existing financing arrangements as they come due;
- our ability to repurchase shares on attractive terms from time to time;
- our understanding of our competition;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on our beliefs, assumptions and expectations, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and 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, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Readers should not place undue reliance on forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

- general volatility of the capital markets and the market price of our common shares;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or the general economy;
- decreased international travel because of geopolitical events, including terrorism and current U.S. government policies;
- the degree and nature of our competition;
- financing risks, including the risk of leverage and the corresponding risk of default on our mortgage loans and other debt and potential inability to refinance or extend the maturity of existing indebtedness;
- levels of spending in the business, travel and leisure industries, as well as consumer confidence;
- declines in occupancy, average daily rate and RevPAR and other hotel operating metrics;

hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
financial condition of, and our relationships with, our joint venture partners, third-party property managers,
franchisors and hospitality joint venture partners;
increased interest rates and operating costs;
ability to complete development and redevelopment projects;

4

Table of Contents

risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;
availability of and our ability to retain qualified personnel;
decreases in tourism due to geopolitical instability or changes in foreign exchange rates;
our failure to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended;
environmental uncertainties and risks related to natural disasters;
changes in real estate and zoning laws and increases in real property tax rates; and
the factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 under the heading “Risk Factors” and in other reports we file with the SEC from time to time.

These factors are not necessarily all of the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors, many of which are beyond our control, also could harm our results, performance or achievements.

All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

BACKGROUND

As of September 30, 2018, we owned interests in 49 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles, Seattle, and Miami, including 39 wholly-owned hotels and interests in 9 hotels owned through unconsolidated joint ventures and 1 hotel owned through a consolidated joint venture. We also entered into a joint venture during the third quarter of 2018 that will be constructing a new hotel adjacent to an existing hotel partially owned by us through a separate joint venture interest. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of September 30, 2018, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. The TRS directly receives all revenue from, and funds all expenses relating to, hotel operations. The TRS is also subject to income tax on its earnings.

OVERVIEW

We believe the changes in our equity and debt capitalization and repositioning of our portfolio over the past several years better enable us to capitalize on further improvement in lodging fundamentals. During 2018 thus far, we continued to see improvements in ADR and RevPAR across most of our markets while occupancy will vary based on the operating strategy utilized at each individual hotel. We continue to seek acquisition opportunities of both branded and independent hotels in urban centers and central business districts. In addition, we will continue to look for attractive opportunities to divest certain of our properties at favorable prices, potentially redeploying that capital in our focus markets or opportunistically repurchasing our common shares.

We expect continued stability and improvement in consumer and commercial spending and lodging demand in many of our markets during 2018. Since September 2017 we have experienced business interruption at our hotels located in South Florida due to Hurricane Irma. The Courtyard Cadillac Hotel resumed operations on August 23, 2018 as the Cadillac Hotel and Beach Club, an Autograph Collection hotel. The Parrot Key Hotel and Resort remained out of service through September 30, 2018 for repairs and renovations with the expectation that the property will resume operations during the fourth quarter of 2018. As a result of Hurricane Irma we recorded an impairment loss of \$4.3 million, for the year ended December 31, 2017, which represented our estimate of property damage and remediation costs incurred up to our insurance policy deductibles. We have recorded no further impairment charges during the first nine months of 2018. For the nine months ended September 30, 2018 we recorded a gain from insurance proceeds received in excess of losses of \$11.1 million. We continue

Table of Contents

to evaluate the financial impact of Hurricane Irma and our ability to recover, through our insurance policies, losses due to interruption of business or damage to property. While we are pursuing the maximum recovery of insurance proceeds under our policies, there are no guarantees that all or a portion of our submitted claims will be paid by our insurers.

Table of Contents

The manner in which the economy will continue to grow, if at all, is not predictable. In addition, the availability of hotel-level financing for the acquisition of new hotels is not within our control. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Factors that might contribute to less-than-anticipated performance include those described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 and other documents that we may file with the SEC in the future. We will continue to cautiously monitor lodging demand and rates, our third-party hotel managers, and our performance generally.

SUMMARY OF OPERATING RESULTS

The table below outlines operating results for the Company’s portfolio of hotels consolidated within our financial statements for the three and nine months ended September 30, 2018 and 2017.

We define a comparable consolidated hotel as one that is currently consolidated, that we have owned in whole or in part during the periods being presented, and is deemed fully operational. Based on this definition, for the three and nine months ended September 30, 2018 and 2017, there are 38 comparable consolidated hotels. The comparable key hotel operating statistics presented in the table below have been computed using pro forma methodology to compute the operating results for the portion of time prior to our ownership of hotels purchased during the comparable period for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 for our comparable hotels.

For the comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017, comparable hotel operating results contain results from our consolidated hotels owned as of September 30, 2018, excluding: (1) the Courtyard Cadillac Hotel, Miami, FL and the Parrot Key Hotel and Resort because both hotels have not been operating while the damage from Hurricane Irma is repaired; and (2) the results of all hotels sold since December 31, 2016. The comparison of the nine months ended September 30, 2018 to September 30, 2017 includes results as reported by the prior owners for the following hotels acquired since December 31, 2016:

- The Ritz-Carlton – Coconut Grove, FL (acquired 2/1/2017)
- The Pan Pacific Hotel – Seattle, WA (acquired 2/21/2017)
- The Westin – Philadelphia, PA (acquired 6/29/2017)
- The Annapolis Waterfront Hotel - Annapolis, MD (acquired March 28, 2018)

The comparison for the three months ended September 30, 2018 to the three months ended September 30, 2017 includes results as reported by the prior owners for the following hotels acquired since June 30, 2017:

- The Annapolis Waterfront Hotel - Annapolis, MD (acquired March 28, 2018)

COMPARABLE CONSOLIDATED HOTELS:

(includes 38 hotels in both periods)

	Three Months Ended			Nine Months Ended,		
	September 30, 2018	September 30, 2017	Variance	September 30, 2018	September 30, 2017	Variance
	(\$'s in 000's except ADR and RevPAR)					
Occupancy	85.9%	86.4%	-53 bps	82.6%	83.6%	-97 bps
Average Daily Rate (ADR)	\$226.35	\$221.40	2.2%	\$225.75	\$220.11	2.6%

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Revenue Per Available Room (RevPAR)	\$194.36	\$191.28	1.6%	\$186.52	\$184.01	1.4%
Room Revenues	\$103,373	\$101,846	1.5%	\$289,474	\$285,578	1.4%
Total Revenues	\$126,643	\$122,827	3.1%	\$357,455	\$348,891	2.5%

7

Table of Contents

For the three and nine months ended September 30, 2018 we experienced negative trends on a comparative basis for occupancy in order to drive rate growth resulting in RevPAR growth of 1.6% and 1.4%, respectively. For the three months ended September 30, 2018, our hotels in Philadelphia, Boston, New York City, and the West Coast contributed to our overall RevPAR growth by earning RevPAR growth of 10.2%, 5.0%, 2.0%, and 2.8%, respectively. For the nine months ended September 30, 2018, our hotels in Philadelphia, Boston, New York City, the West Coast, and Florida posted RevPAR growth of 1.7%, 3.4%, 5.5%, 4.0%, and 11.0%, respectively.

The table below outlines operating results for the Company's portfolio of hotels we own through interests in unconsolidated joint ventures for the three and nine months ended September 30, 2018 and 2017.

We define a comparable unconsolidated joint venture hotel as one that is currently owned by our unconsolidated joint ventures in whole or in part for the entirety of the periods being presented, and is deemed fully operational. Based on this definition, for the three and nine months ended September 30, 2018 and 2017, there are 9 comparable unconsolidated joint venture hotels. The comparable key hotel operating statistics presented in the table below have been computed using pro forma methodology to compute the operating results for the portion of time prior to the joint venture's ownership of hotels purchased during the comparable period for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 for our comparable hotels.

COMPARABLE UNCONSOLIDATED JOINT VENTURES:

(includes 9 hotels in both periods)

	Three Months Ended September 30,			Nine Months Ended, September 30,		
	2018	2017	Variance	2018	2017	Variance
	(\$'s in 000's except ADR and RevPAR)					
Occupancy	94.1	% 95.1	% -95 bps	92.6	% 90.5	% 211 bps
Average Daily Rate (ADR)	\$215.47	\$215.79	(0.2)%	\$206.99	\$206.21	0.4%
Revenue Per Available Room (RevPAR)	\$202.81	\$205.14	(1.1)%	\$191.69	\$186.63	2.7%
Room Revenues	\$26,579	\$25,837	2.9%	\$97,615	\$93,254	4.7%
Total Revenues	\$27,185	\$26,337	3.2%	\$99,752	\$95,219	4.8%

While occupancy decreased 95 basis points for the three months ended September 30, 2018 compared to the same period in 2017, the occupancy for the nine months ended September 30, 2018 increased by 211 basis points. This increase can be attributed to growth at both Cindat and our South Boston joint ventures, which both experienced occupancy growth over 200 basis points. The properties within our unconsolidated joint ventures, on a comparable basis, generated -1.1% and 2.7% growth in RevPAR for the three and nine months ended September 30, 2018, respectively. The largest driver of this RevPAR performance is the performance of the hotel properties located in New York City within the Cindat joint venture, which had RevPAR growth of -0.4% and 3.8% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017.

Table of Contents

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(dollars in thousands, except ADR, RevPAR, and per share data)

Revenue

Our total revenues for the three months ended September 30, 2018 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99% of total revenues for the three months ended September 30, 2018 and 2017. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture or other interests that are consolidated in our financial statements. Hotel operating revenues decreased \$1,781 or 1.4%, to \$127,729 for the three months ended September 30, 2018 compared to \$129,510 for the same period in 2017. This decrease in hotel operating revenues can be explained by the following table:

Hotel Operating Revenue for the three months ended September 30, 2017	\$ 129,510
Incremental Revenue Additions from Acquisitions (7/1/2017 - 9/30/2018):	
The Annapolis Waterfront Hotel - Annapolis, MD	3,344
Total Incremental Revenue from Acquisitions	3,344
Revenue Reductions from Dispositions (7/1/2017 - 9/30/2018):	
Holiday Inn Express - Chester, NY	(832)
Hyatt House - Gaithersburg, MD	(1,199)
Hampton inn - Pearl Street, New York, NY	(1,544)
Total Incremental Revenue Reductions from Dispositions	(3,575)
Change in Hotel Operating Revenue for Remaining Hotels	(1,550)
Hotel Operating Revenue for the three months ended September 30, 2018	\$ 127,729

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$1,550 decrease in hotel operating revenue. This decrease is attributable to the Courtyard Cadillac Hotel and Parrot Key Hotel and Resort being closed for repairs during the third quarter of 2018 due to damage from Hurricane Irma. Collectively, \$5,050 of the decrease is the result of these two hotels being out of operation during the third quarter 2018. The remaining same store hotels contributed a net increase in revenue for the third quarter of 2018 of approximately \$3,500 when compared to the same period in 2017.

Table of Contents

Expenses

Total hotel operating expensed increased 0.8% to approximately \$76,295 for the three months ended September 30, 2018 from \$76,917 for the three months ended September 30, 2017. The increase in hotel operating expenses can be explained by the following table:

Hotel Operating Expenses for the three months ended September 30, 2017	\$76,917
Incremental Expense Additions from Acquisitions (7/1/2017 - 9/30/2018):	
The Annapolis Waterfront Hotel - Annapolis, MD	1,576
Total Incremental Expenses from Acquisitions	1,576
Expense Reductions from Dispositions (7/1/2017 - 9/30/2018):	
Hyatt House - Scottsdale, AZ	(22)
Hyatt House - Pleasant Hill, CA	(27)
Hyatt House - Pleasanton, CA	(2)
Holiday Inn Express - Chester, NY	(505)
Hyatt House - Gaithersburg, MD	(870)
Hampton inn - Pearl Street, New York, NY	(838)
Total Incremental Expense Reductions from Dispositions	(2,264)
Change in Hotel Operating Expenses for Remaining Hotels	66
Hotel Operating Expenses for the three months ended September 30, 2018	\$76,295

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$66 increase in hotel operating expenses. The Courtyard Cadillac Hotel and Parrot Key Hotel and Resort were closed for repairs for the entirety or in part during the third quarter of 2018 due to damage from Hurricane Irma and the conversion of the Courtyard Cadillac Hotel to an Autograph Collection hotel causing a decrease in hotel operating expenses related to these two properties of \$1,085, collectively. The remaining same store hotels contributed a net increase in expense for the third quarter of 2018 of approximately \$1,151 when compared to the same period in 2017.

Depreciation and amortization increased by 5.1%, or \$1,106, to \$22,764 for the three months ended September 30, 2018 from \$21,658 for the three months ended September 30, 2017. The increase in depreciation and amortization was primarily attributable to the depreciation and amortization recorded on the hotels recently acquired partially offset by properties sold. Real estate and personal property tax and property insurance increased \$513, or 6.1%, for the three months ended September 30, 2018 when compared to the same period in 2017. Increases from properties acquired since October 1, 2017 added \$162 in expense and properties sold since July 1, 2017 resulted in a decrease of \$299 in real estate and property insurance for the three months ended September 30, 2018. We otherwise typically experience increases in tax assessments and tax rates as the economy improves which could be offset by reductions resulting from successful real estate tax appeals.

General and administrative expense increased by 18.7%, or approximately \$922, from \$4,919 in the three months ended September 30, 2017 to \$5,841 for the same period in 2018. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Executives elected 100% of their annual cash incentive payments, if earned, in shares or LTIP Units. As a result expenses related to share based compensation increased \$556 when comparing the three months ended September 30, 2018 to the same period in 2017. Please refer to "Note 8 – Share Based Payments" of the notes to the consolidated financial statements for more information about our share based compensation.

Table of Contents

Prior to January 1, 2018, acquisition and terminated transaction costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Based on the updated accounting literature that defines purchases of businesses versus the purchase of assets, the majority of our acquisitions subsequent to 2017 will be viewed as the purchase of assets, which will result in the acquisition costs related to asset purchases being included in the purchase price of the asset. As a result, the only expenses that will be recorded in this line item going forward will generally be related to any terminated deal costs. Acquisition and terminated transaction costs for the three months ended September 30, 2018 totaled \$8.

Gain on Insurance Settlement

During the three months ended September 30, 2018, the Company recorded insurance recoveries in excess of property losses in the amount of \$4,778, while we recognized losses in excess of recoveries of \$3,812 during the comparable period in 2017. During the third quarter 2018, the Company received a total of \$3,959 in insurance proceeds and recorded a receivable related to insurance proceeds received on October 1, 2018, which were offset by a total of \$784 in additional remediation expenses.

Operating Income

Operating income for the three months ended September 30, 2018 was \$17,486 compared to operating income of \$12,675 during the same period in 2017. Operating income was positively impacted by gains on insurance recoveries and decreased hotel operating expenses. This positive impact was partially offset by decreased hotel operating revenues and increased costs in areas such as hotel ground rent, real estate taxes, and depreciation and amortization.

Interest Expense

Interest expense increased \$1,266 from \$11,141 for the three months ended September 30, 2017 to \$12,407 for the three months ended September 30, 2018. The balance of our borrowings, excluding discounts and deferred costs, have increased by \$28,193 in total between September 30, 2017 and September 30, 2018, as we drew \$26,000, net on our line of credit and had a net increase in mortgages payable of \$26,293, which was partially offset by a net reduction in our unsecured term loan of \$24,100. The primary driver of our increased interest expense is due to the net increase in the balance on our credit facility, which contributed \$593 to interest expense when comparing the three months ended September 30, 2018 to the corresponding period in 2017. The remaining increase in interest expense for the three months ended September 30, 2018 is due to increasing interest rates on our existing variable rate mortgages and the interest expense on our new mortgage debt on the Annapolis Waterfront Hotel.

Unconsolidated Joint Venture Investments

The income from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures increased by \$43 from income of \$539 for the three months ended September 30, 2017 compared to income of \$582 during the same period in 2018. The change in net income for the three months ended September 30, 2018 is directly attributable to the results of operations of our two South Boston joint ventures.

Income Tax Expense

During the three months ended September 30, 2018, the Company recorded an income tax expense of \$2,685 compared to an income tax benefit of \$1,325 for the three months ended September 30, 2017. The amount of income tax expense that the Company records depends mostly on the amount of taxable income or loss that is generated by our consolidated taxable REIT subsidiaries ("TRS").

Net (Loss) Income Applicable to Common Shareholders

Net loss applicable to common shareholders for the three months ended September 30, 2018 was a loss of \$3,235 compared to a loss of \$2,687 during the same period in 2017, resulting in a increase of \$548. This increase was primarily related to the increased operating income as discussed above partially offset by increased interest expense and income tax expense for the period.

Table of Contents

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(dollars in thousands, except ADR, RevPAR, and per share data)

Revenue

Our total revenues for the nine months ended September 30, 2018 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99% of total revenues for the nine months ended September 30, 2018 and 2017. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture or other interests that are consolidated in our financial statements. Hotel operating revenues decreased \$13,472 or 3.6%, to \$361,006 for the nine months ended September 30, 2018 compared to \$374,478 for the same period in 2017. This increase in hotel operating revenues can be explained by the following table:

Hotel Operating Revenue for the nine months ended September 30, 2017		\$ 374,478
Incremental Revenue Additions from Acquisitions (1/1/2017 - 9/30/2018):		
The Ritz-Carlton - Coconut Grove, FL	2,118	
The Pan Pacific Hotel - Seattle, WA	2,353	
The Westin - Philadelphia, PA	15,444	
The Annapolis Waterfront Hotel - Annapolis, MD	6,865	
Total Incremental Revenue from Acquisitions		26,780
Revenue Reductions from Dispositions (1/1/2017 - 9/30/2018):		
Residence Inn - Greenbelt, MD	(35)	
Courtyard - Alexandria, VA	(17)	
Hyatt House - Scottsdale, AZ	(4,346)	
Hyatt House - Pleasant Hill, CA	(3,511)	
Hyatt House - Pleasanton, CA	(3,740)	
Holiday Inn Express - Chester, NY	(2,069)	
Hyatt House - Gaithersburg, MD	(3,481)	
Hampton Inn - Pearl Street, New York, NY	(3,497)	
Total Incremental Revenue Reductions from Dispositions		(20,696)
Change in Hotel Operating Revenue for Remaining Hotels		(19,556)
Hotel Operating Revenue for the nine months ended September 30, 2018		\$ 361,006

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$19,556 decrease in hotel operating revenue. The majority of this decrease is attributable to the Courtyard Cadillac Hotel and Parrot Key Hotel and Resort being closed for repairs during all or a majority of the first nine months of 2018 due to damage from Hurricane Irma. Collectively, \$24,619 of the decrease is the result of these two hotels being out of operation during the nine months ended September 30, 2018. The remaining same store hotels contributed a net increase in revenue for the first nine months of 2018 of approximately \$5,063 when compared to the same period in 2017.

Table of Contents

Expenses

Total hotel operating expenses decreased 0.4% to approximately \$219,736 for the nine months ended September 30, 2018 from \$220,706 for the nine months ended September 30, 2017. The decrease in hotel operating expenses can be explained by the following table:

Hotel Operating Expenses for the nine months ended September 30, 2017	\$220,706
Incremental Expense Additions from Acquisitions (1/1/2017 - 9/30/2018):	
The Ritz-Carlton - Coconut Grove, FL	1,140
The Pan Pacific Hotel - Seattle, WA	1,484
The Westin - Philadelphia, PA	8,949
The Annapolis Waterfront Hotel - Annapolis, MD	3,200
Total Incremental Expenses from Acquisitions	14,773
Expense Reductions from Dispositions (1/1/2017 - 9/30/2018):	
Residence Inn - Greenbelt, MD	(21)
Courtyard - Alexandria, VA	(48)
Hyatt House - Scottsdale, AZ	(2,083)
Hyatt House - Pleasant Hill, CA	(1,807)
Hyatt House - Pleasanton, CA	(1,856)
Holiday Inn Express - Chester, NY	(1,414)
Hyatt House - Gaithersburg, MD	(2,532)
Hampton Inn - Pearl Street, New York, NY	(1,764)
Total Incremental Expense Reductions from Dispositions	(11,525)
Change in Hotel Operating Expenses for Remaining Hotels	(4,218)
Hotel Operating Expenses for the nine months ended September 30, 2018	\$219,736

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$4,218 decrease in hotel operating expenses. The decrease is attributable to the Courtyard Cadillac Hotel and Parrot Key Hotel and Resort being closed for repairs during all or a majority of the first nine months of 2018 due to damage from Hurricane Irma. Collectively, \$8,975 of the decrease is the result of these two hotels being out of operation during the nine months ended September 30, 2018. The remaining same store hotels contributed a net increase in expense for the first nine months of 2018 of approximately \$4,757 when compared to the same period in 2017.

Depreciation and amortization increased by 8.4%, or \$5,130, to \$66,364 for the nine months ended September 30, 2018 from \$61,234 for the nine months ended September 30, 2017. The increase in depreciation and amortization was primarily attributable to the depreciation and amortization recorded on the hotels recently acquired offset by properties sold. Real estate and personal property tax and property insurance increased \$1,240, or 5.1%, for the nine months ended September 30, 2018 when compared to the same period in 2017 with no single market causing the overall increase. Increases from properties acquired since January 1, 2017 added \$979 in expense and properties sold since July 1, 2017 resulted in a decrease of \$1,209 in real estate and property insurance for the nine months ended September 30, 2018. We otherwise typically experience increases in tax assessments and tax rates as the economy improves which could be offset by reductions resulting from successful real estate tax appeals.

General and administrative expense increased by 14.7%, or approximately \$2,373, from \$16,142 in the nine months ended September 30, 2017 to \$18,515 for the same period in 2018. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees,

executives, and employees. Executives elected 100% of their annual cash incentive payments, if earned, in shares or LTIP Units. As a result expenses related to share based compensation increased \$1,329 when comparing the nine months ended September 30, 2018 to the same period in 2017. Please refer to “Note 8 – Share Based Payments” of the notes to the consolidated financial statements for more information about our share based compensation.

Table of Contents

Prior to January 1, 2018, acquisition and terminated transaction costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Based on the updated accounting literature that defines purchases of businesses versus the purchase of assets, the majority of our acquisitions subsequent to 2017 will be viewed as the purchase of assets, which will result in the acquisition costs related to asset purchases being included in the purchase price of the asset. As a result, the only expenses that will be recorded in this line item going forward will generally be related to any terminated deal costs. Acquisition and terminated transaction costs for the nine months ended September 30, 2018 totaled \$10.

Gain on Insurance Settlement

During the nine months ended September 30, 2018, the Company recorded insurance recoveries in excess of property losses in the amount of \$11,141, while we recognized losses in excess of recoveries of \$3,812 during the comparable period in 2017. During the first nine months of 2018, the Company received a total of \$22,238 in insurance proceeds and recorded a receivable related to insurance proceeds received on October 1, 2018, which was offset by a total of \$11,097 in funds applied to previously recorded insurance receivables and additional remediation expenses and expenses due to franchisors based on the business interruption settlements.

Operating Income

Operating income for the nine months ended September 30, 2018 was \$38,885 compared to operating income of \$44,870 during the same period in 2017, resulting in a decrease of \$5,985. Operating income was negatively impacted by decreased hotel operating revenues and increased costs in areas such as real estate and personal property taxes, property insurance, and depreciation and amortization. Partially offsetting the negative results were a \$11,141 gain on insurance settlement and decreased acquisition and terminated transaction costs.

Interest Expense

Interest expense increased \$4,078 from \$31,580 for the nine months ended September 30, 2017 to \$35,658 for the six months ended September 30, 2018. The balance of our borrowings, excluding discounts and deferred costs, have increased by \$28,193 in total between September 30, 2017 and September 30, 2018, as we drew \$26,000, net on our line of credit and had a net increase in mortgages payable of \$26,293 which were partially offset by a net reduction in our unsecured term loan of \$24,100. The primary driver of our increased interest expense is due to the net increase in the balance on our credit facility, which contributed \$2,493 to interest expense when comparing the nine months ended September 30, 2018 to the corresponding period in 2017. The remaining increase in interest expense for the nine months ended September 30, 2018 is due to increasing interest rates on our existing variable rate mortgages and the interest expense on our new mortgage debt on the Annapolis Waterfront Hotel.

Unconsolidated Joint Venture Investments

The income (loss) from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures decreased by \$12,685 from income of \$13,603 for the nine months ended September 30, 2017 compared to income of \$918 during the same period in 2018. During the nine months ended September 30, 2017, we recognized a \$16,239 gain on the remeasurement of investment in unconsolidated joint ventures related to our transfer and redemption of our joint venture interest in Mystic Partners, LLC. In exchange for our interest in the partnership, we received 100% ownership of the Mystic Marriott Hotel & Spa and \$11,623 in cash proceeds. No similar transaction occurred during the nine months ended September 30, 2018.

Income Tax Expense

During the nine months ended September 30, 2018, the Company recorded an income tax expense of \$1,200 compared to an income tax expense of \$1,580 for the nine months ended September 30, 2017. The amount of income tax expense or benefit that the Company records depends mostly on the amount of taxable income or loss that is generated by our consolidated taxable REIT subsidiaries (“TRS”).

Table of Contents

Net (Loss) Income Applicable to Common Shareholders

Net (loss) income applicable to common shareholders for the nine months ended September 30, 2018 was a loss of \$10,829 compared to income of \$90,033 during the same period in 2017. This decrease was primarily related to a decrease in gains recorded on dispositions of hotel property of \$86,141, a decrease in the gain from the remeasurement of our investment in the Mystic joint venture during the first quarter of 2017 of \$16,239, and a decrease in Operating Income as discussed above. Partially offsetting these amounts are increases in gains recognized on insurance recoveries, decreased income tax expense and increased losses allocated to noncontrolling interests.

LIQUIDITY, CAPITAL RESOURCES, AND EQUITY OFFERINGS

(dollars in thousands, except per share data)

Potential Sources of Capital

Our organizational documents do not limit the amount of indebtedness that we may incur. Our ability to incur additional debt is dependent upon a number of factors, including the current state of the overall credit markets, our degree of leverage and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, capital market volatility, risk tolerance of investors, general market conditions for REITs and market perceptions related to the Company's ability to generate cash flow and positive returns on its investments.

In addition, our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, nonrecourse financing arrangements. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that all covenants contained in the loan agreements securing our hotel properties were met as of September 30, 2018.

We have unsecured debt facilities in the aggregate of \$950,900 which is comprised of a \$457,000 senior unsecured credit facility and two unsecured term loans totaling \$493,900. The unsecured credit facility ("Credit Facility") contains a \$207,000 unsecured term loan ("First Term Loan") and a \$250,000 unsecured revolving line of credit ("Line of Credit"). This Credit Facility expires on August 10, 2022 and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one-year period. The Credit Facility is also expandable by \$400,000 at our request, subject to the satisfaction of certain conditions. Our two additional unsecured term loans are \$300,000 ("Second Term Loan") and \$193,900 ("Third Term Loan"), which mature on August 10, 2020 and August 2, 2021, respectively.

As of September 30, 2018, the outstanding balance under the First Term Loan was \$207,000, under the Second Term Loan was \$300,000, under the Third Term Loan was \$193,900 and we had \$26,000 outstanding under the Line of Credit. As of September 30, 2018, our remaining borrowing capacity under the Credit Facility, Second Term Loan and Third Term Loan was \$124,227 which is based on certain operating metrics of unencumbered hotel properties designated as borrowing base assets. We anticipate that this borrowing capacity will further increase with the reopening of the Parrot Key Hotel currently closed due to renovations as a result of Hurricane Irma.

We will continue to monitor our debt maturities to manage our liquidity needs. However, no assurances can be given that we will be successful in refinancing all or a portion of our future debt obligations due to factors beyond our control or that, if refinanced, the terms of such debt will not vary from the existing terms. As of September 30, 2018, we have no indebtedness maturing on or before December 31, 2018. We currently expect that cash requirements for all debt that is not refinanced by our existing lenders for which the maturity date is not extended will be met through a combination of cash on hand, refinancing the existing debt with new lenders, draws on the Line of Credit and the issuance of our securities.

In addition to the incurrence of debt and the offering of equity securities, dispositions of property may serve as additional capital resources and sources of liquidity. We may recycle capital from stabilized assets, as evidenced by our transaction involving the Cindat JV properties, or from sales of non-core hotels in secondary and tertiary markets. Capital from these types of transactions is intended to be redeployed into high growth acquisitions, share buybacks, or to pay down existing debt.

Table of Contents

Common Share Repurchase Plan

In December 2017, our Board of Trustees authorized a share repurchase program for up to \$100,000 of common shares which commenced upon the completion of the prior repurchase program. The program will expire on December 31, 2018, unless extended by our Board of Trustees. For the nine months ended September 30, 2018, the Company repurchased 635,590 common shares for an average price of \$17.04.

Acquisitions

During the nine months ended September 30, 2018, we acquired the following wholly-owned hotel property:

Hotel	Acquisition Date	Buildings Land and Improvements	Furniture, Fixtures and Equipment	Other Intangibles	Total Purchase Price	Assumption of Debt
Annapolis Waterfront Hotel - Annapolis, MD	3/28/2018	\$ —\$ 43,251	\$ 1,802	\$ (3,199) *	\$ 41,854	\$ —
TOTAL		\$ —\$ 43,251	\$ 1,802	\$ (3,199)	\$ 41,854	\$ —

* Consists entirely of \$3,199 of above market ground lease liability.

We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in hotels will depend upon and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of common or preferred shares, proceeds from the sale of assets, issuances of Common Units, issuances of preferred units or other securities or borrowings secured by hotel assets and under our Line of Credit.

Operating Liquidity and Capital Expenditures

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under the Line of Credit. We believe that the net cash provided by operations in the coming year and borrowings drawn on the Line of Credit will be adequate to fund the Company's operating requirements, monthly recurring debt service and the payment of dividends in accordance with REIT requirements of the Internal Revenue Code of 1986, as amended.

To qualify as a REIT, we must distribute annually at least 90% of our taxable income. This distribution requirement limits our ability to retain earnings and requires us to raise additional capital in order to grow our business and acquire additional hotel properties. However, there is no assurance that we will be able to borrow funds or raise additional equity capital on terms acceptable to us, if at all. In addition, we cannot guarantee that we will continue to make distributions to our shareholders at the current rate of \$0.28 per common share per quarter or at all. Due to the seasonality of our business, cash provided by operating activities fluctuates significantly from quarter to quarter. However, we believe that, based on our current estimates, which include the addition of cash from operations provided by the hotel acquired during 2018, our cash provided by operating activities will be sufficient over the next 12 months to fund the payment of our dividend at its current level. However, our Board of Trustees continues to evaluate the dividend policy in the context of our overall liquidity and market conditions and may elect to reduce or suspend these distributions. Net cash provided by operating activities for the nine months ended September 30, 2018 was \$83,067 and cash used for the payment of distributions and dividends for the nine months ended September 30, 2018 was \$54,402.

We also project that our operating cash flow and available borrowings under the Line of Credit will be sufficient to satisfy our liquidity and other capital needs over the next twelve to eighteen months.

Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovation and other non-recurring capital expenditures that need to be made periodically with respect to hotel properties and scheduled debt repayments. We will seek to satisfy these long-term liquidity requirements through various sources of capital, including borrowings under the Line of Credit and through secured, non-recourse mortgage financings with respect to our unencumbered hotel properties. In addition, we may seek to raise capital through public or private offerings of our securities. Certain factors may have a material adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties and borrowing restrictions imposed by lenders or franchisors. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but financing may not be consistently available to us on terms that are attractive, or at all.

Table of Contents

Spending on capital improvements during the nine months ended September 30, 2018 increased when compared to spending on capital improvements during the nine months ended September 30, 2017. During the nine months ended September 30, 2018, we spent \$53,573 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to \$32,982 during the same period in 2017. These capital expenditures were undertaken to comply with brand mandated improvements and to initiate projects that we believe will generate a return on investment and to replace assets damaged by recent hurricanes as discussed in the paragraph below.

We may spend additional amounts, if necessary, to comply with the requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be prudent. We are also obligated to fund the cost of certain capital improvements to our hotels. In addition to capital reserves required under certain loan agreements and capital expenditures to renovate, improve or replace assets at our hotels, we have opportunistically engaged in hotel development projects. During the nine months ended September 30, 2018, we spent \$29,606 on hotel development projects and construction on hurricane impacted hotels compared to \$1,500 during the same period of 2017. We expect to use operating cash flow, borrowings under the Line of Credit, and proceeds from issuances of our securities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above. As a result of damage caused by Hurricane Irma, the Company will incur additional capital expenditures in order to return properties to working order. In some instances, but not all, the Company expects to recover a portion of the capital expenditure costs through insurance proceeds.

CASH FLOW ANALYSIS

(dollars in thousands, except per share data)

Comparison of the Nine Months Ended September 30, 2018 and 2017

Net cash provided by operating activities decreased \$6,932 from \$89,999 for the nine months ended September 30, 2017 to \$83,067 for the comparable period in 2018. Net income, adjusted for non-cash items reflected in the consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, decreased by \$18,434 for the nine months ended September 30, 2018 when compared to 2017. Additional cash from operating activities was provided by insurance proceeds received on business interruption insurance claims of \$8,614, and a net decrease in working capital assets.

Net cash used in investing activities for the nine months ended September 30, 2018 was \$14,467 compared to net cash used in investing activities of \$81,538 for the nine months ended September 30, 2017. During the nine months ended September 30, 2018, we received \$49,580 in proceeds from the disposition of two hotel properties and \$13,624 in insurance proceeds related to claims for property losses as a result of Hurricane Irma. Additionally, we received \$47,738 in proceeds from the redemption of our preferred equity investment in Cindat. During the nine months ended September 30, 2017 we received \$188,612 in proceeds from the disposition of two hotels and \$11,623 in proceeds from the sale of our joint venture interest in Mystic Partners. Offsetting these sources of funds were \$41,230 for the purchase of one hotel property during the nine months ended September 30, 2018 compared to \$249,291 for the purchase of three hotel properties during the nine months ended September 30, 2017.

Net cash used in financing activities for the nine months ended September 30, 2018 was \$47,174 compared to net cash used in financing activities for the nine months ended September 30, 2017 of \$137,065. This is primarily due to \$18,000 in repayments of the borrowings under the unsecured term loan facility during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, we repaid amounts on the line of credit, unsecured term loan, and mortgages payable of \$122,312. During the nine months ended September 30, 2018, we borrowed \$9,900 from our line of credit and \$28,000 from new mortgage loans originated. During the nine months ended September 30, 2017 we borrowed \$58,380 on our unsecured term loan facility. Also during the nine months

ended September 30, 2018, we repurchased \$10,833 of our Class A Common Shares compared with none in the nine months ended September 30, 2017. In addition, dividends and distributions paid during the nine months ended September 30, 2018 decreased \$10,007 when compared to the same period in 2017, due, mostly, to the special dividend declared on common shares during the fourth quarter of 2016 that was paid during the first three months of 2017. A special dividend was not paid during the nine months ended September 30, 2018.

Table of Contents

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

FUNDS FROM OPERATIONS

(in thousands, except share data)

The National Association of Real Estate Investment Trusts (“NAREIT”) developed Funds from Operations (“FFO”) as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Common Units in accordance with the April 2002 National Policy Bulletin of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated assets, plus certain non-cash items, such as loss from impairment of assets and depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our interpretation of the NAREIT definition is that noncontrolling interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shareholders, includes loss from the impairment of certain depreciable assets, our investment in unconsolidated joint ventures and land, depreciation and amortization expenses, gains or losses on property sales, noncontrolling interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations. We determined that the loss from the impairment of certain depreciable assets including investments in unconsolidated joint ventures and land, was driven by a measurable decrease in the fair value of certain hotel properties and other assets as determined by our analysis of those assets in accordance with applicable GAAP. As such, these impairments have been eliminated from net loss to determine FFO.

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company’s performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Common Units because our Common Units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Common Units.

Table of Contents

The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income (loss) applicable to common shareholders	\$(3,235)	\$ (2,687)	\$(10,829)	\$ 90,033
(Loss) income allocated to noncontrolling interest	178	(90)	(1,626)	5,849
Income from unconsolidated joint ventures	(582)	(539)	(918)	(13,603)
(Loss) gain on disposition of hotel properties	—	39	(3,403)	(89,544)
Loss from impairment of depreciable assets	—	2,057	—	2,057
Depreciation and amortization	22,764	21,658	66,364	61,234
Funds from consolidated hotel operations applicable to common shareholders and Partnership Units	19,125	20,438	49,588	56,026
Income from unconsolidated joint ventures	582	539	918	13,603
Gain from remeasurement of investment in unconsolidated joint ventures	—	—	—	(16,239)
Unrecognized pro rata interest in income (loss)	(290)	1,163	(4,215)	5,666
Depreciation and amortization of difference between purchase price and historical cost ⁽¹⁾	23	(301)	70	(905)
Interest in depreciation and amortization of unconsolidated joint ventures ⁽²⁾	1,175	1,013	3,281	2,948
Funds from unconsolidated joint ventures operations applicable to common shareholders and Common Units	1,490	2,414	54	5,073
Funds from Operations applicable to common shareholders and Common Units	\$20,615	\$ 22,852	\$49,642	\$ 61,099
Weighted Average Common Shares and Common Units				
Basic	39,321,062	41,721,425	39,400,237	41,725,159
Diluted	43,237,267	44,957,895	43,274,342	44,936,099

(1) Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.

(2) Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures. Allocation of depreciation and amortization is consistent with allocation of income and loss.

Based on guidance provided by NAREIT, we have eliminated loss from the impairment of certain depreciable assets, including investments in unconsolidated joint ventures and land, from net loss to arrive at FFO in each year presented.

Table of Contents

INFLATION

Operators of hotel properties, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2018 and 2017 and none of the estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

Revenue Recognition

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which is codified as ASC 606 and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. The Company has adopted the provisions of ASC 606 effective January 1, 2018, electing to utilize the modified retrospective transition method. The modified retrospective method allows for, among other things, a cumulative adjustment to opening equity upon adoption of the standard. The adoption of the provisions of ASC 606 was applied to contracts with customers using available practical expedients only for contracts with customers. The Company evaluated only those contracts with customers that did not meet the definition of a closed contract under the guidance of ASC 606 at the time of adoption. This approach resulted in no cumulative adjustment to opening equity for the Company as it relates to contracts with customers. The new revenue recognition model will not have a material impact on our hotel operating revenue, including room revenue, food and beverage, and other revenue. Our hotel operating revenue streams contain contracts with customers that, generally, are short-term by nature and the prior revenue recognition policies and procedures used by the Company do not initially result in different balances, allowing for comparability to historical financial data without adjustment.

We recognize revenue for all consolidated hotels as hotel operating revenue when earned. Revenues are recorded net of any sales or occupancy tax collected from our guests. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred. Hotel operating revenues are disaggregated on the face of the consolidated statement of operations into the categories of rooms revenue, food and beverage revenue, and other to demonstrate how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows.

Room revenue is generated through contracts with customers whereby the customers agrees to pay a daily rate for right to use a hotel room. The Company's contract performance obligations are fulfilled at the end of the day that the customer is provided the room and revenue is recognized daily at the contract rate. Payment from the customer is secured at the end of the contract upon check-out by the customer from our hotel. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future stay at our hotels. Advanced deposits for room revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits are recognized as revenue at the time of the guest's stay. The Company notes no significant judgements regarding the recognition of rooms revenue.

Food and beverage revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or banquet services. The Company's contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the banquet facilities and related dining

amenities are provided to the customer. The Company recognizes food and beverage revenue upon the fulfillment of the contract with the customer. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at our hotels. Advanced deposits for food and beverage revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. The Company notes no significant judgements regarding the recognition of food and beverage revenue.

Table of Contents

Gains from the sales of ownership interests in real estate are accounted for in accordance with the provisions of Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, which the Company adopted effective January 1, 2018. Our evaluation over sales of real estate is impacted by the FASB definition of a business and in substance nonfinancial assets, which have been addressed through the issuance of ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, and ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), respectively. Based on the provisions of ASU No. 2017-01 and ASU No. 2017-05, the Company expects any future sales of interests in hotel properties to likely meet the criteria for full gain recognition on sale. This treatment is not different from our historical position when selling our entire interest in hotel properties, however, this is different than the historical treatment in certain instances where the Company sold partial interests in hotel properties.

In particular, during 2016 the Company sold partial interests in seven hotel properties to a third party (“Cindat Sale”) resulting in an approximate \$81 million deferred gain based on prevailing GAAP at the time of the transaction. The Company chose to adopt the provisions of ASC 610-20 for contracts with noncustomers for all contracts and chose not to utilize any available practical expedients as it pertains to contracts with noncustomers. Accordingly, the Company's analysis included all contracts with noncustomers related to the sales, either full or partial, of our interest in hotel properties. The Company noted no changes to the recognition of gains on sales in instances whereby the Company sold 100% of our interest. The Company noted, however, that the Cindat Sale, under the provisions of ASC 610-20, would have resulted in full gain recognition at the time of the partial sale of our interest in the seven hotel properties. The impact of our adoption of the new standard resulted in a cumulative adjustment to increase the opening balance to equity by \$123,228 and increase the opening balance of noncontrolling interests of \$5,793.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned.

Investment in Hotel Properties

Investments in hotel properties are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of up to 40 years for buildings and improvements, two to seven years for furniture, fixtures and equipment. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in hotel properties. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in hotel properties we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Identifiable assets, liabilities, and noncontrolling interests related to hotel properties acquired in a business combination are recorded at full fair value. Estimating techniques and assumptions used in determining fair values involve significant estimates and judgments. These estimates and judgments have a direct impact on the carrying value of our assets and liabilities which can directly impact the amount of depreciation expense recorded on an annual basis and could have an impact on our assessment of potential impairment of our investment in hotel properties.

Properties intended to be sold are designated as “held for sale” on the balance sheet. In accordance with ASU Update No. 2014-08 concerning the classification and reporting of discontinued operations, we evaluate each disposition to determine whether we need to classify the disposition as discontinued operations. This amendment defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

Table of Contents

Based on the occurrence of certain events or changes in circumstances, we review the recoverability of the property's carrying value. Such events or changes in circumstances include the following:

- a significant decrease in the market price of a long-lived asset;
- a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; and
- a current expectation that, it is more likely than not that, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We review our portfolio on an on-going basis to evaluate the existence of any of the aforementioned events or changes in circumstances that would require us to test for recoverability. In general, our review of recoverability is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value expected, as well as the effects of hotel demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in hotel properties.

As of September 30, 2018, based on our analysis, we have determined that the estimated future cash flow of each of the properties in our portfolio is sufficient to recover its carrying value.

New Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The update will simplify several aspects of the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update affects all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees. The provisions of the update will be effective for the Company starting January 1, 2019 with the early adoption available as early as the quarter ended June 30, 2018. We do not anticipate this update to have a material effect on our consolidated financial statements and related disclosures based on the historic volatility of our stock price and the relative number of nonemployee share-based payments awards outstanding, however, we are currently assessing the ultimate impact of this update.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update will make more financial and nonfinancial hedging strategies eligible for hedge accounting, changes how companies assess hedge effectiveness, and amends the presentation and disclosure requirements for hedging transactions. The provisions of the update will be effective for the Company starting January 1, 2019 with the early adoption available as early as the quarter ended March 31, 2018. The Company will adopt the provisions of this update effective January 1, 2019. Based on the type of derivative instruments within the Company's portfolio (See Note 7), we do not anticipate this update to have a material effect on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business as it relates to acquisitions and business combinations. The

update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. The Company has adopted ASU No. 2017-01 effective, January 1, 2018. The Company applied the provisions of this standard to record our purchase of the Annapolis Waterfront Hotel as discussed in further detail within Note 2.

Table of Contents

In November 2016 the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), which provides guidance on the presentation of restricted cash or restricted cash equivalents within the statement of cash flows. Accordingly, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard effective January 1, 2018. The adoption of ASU No. 2016-18 changed the presentation of the statement of cash flows for the Company and we utilized a retrospective transition method for each period presented within financial statements for periods subsequent to the date of adoption. Additionally, the Company provides a reconciliation within Note 10 of cash, cash equivalents, and restricted cash to their relative balance sheet captions.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. We anticipate that our interests as a lessee in ground leases will have a more than inconsequential impact to our balance sheet as we have five ground leases under which we are the lessee. As of September 30, 2018, these ground leases, collectively, have remaining lease payments due in total of \$330,142 with a weighted average life of approximately 71 years. We are currently determining the appropriate discount rate to utilize within our calculations of the right-of-use asset and lease liability, and, as such, we have not finalized our calculations as of September 30, 2018. We are also a lessor in certain office space and retail lease agreements related to our hotels. While we do not anticipate any material change to the accounting for leases under which we are a lessor, we are still evaluating the impact this ASU will have on the accounting for our leasing arrangements as well as our disclosures within the notes to our financial statements. The provisions of the standard will be effective for the Company on January 1, 2019.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits.

Exhibit

No.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

24

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERSHA HOSPITALITY
TRUST

October 25, 2018 /s/ Ashish R. Parikh
Ashish R. Parikh
Chief Financial Officer
(Principal Financial Officer)

25