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Pebblebrook Hotel Trust
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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 001-34571

PEBBLEBROOK HOTEL TRUST
(Exact Name of Registrant
as Specified in Its Charter)

Maryland 27-1055421
(State of Incorporation (I.R.S. Employer
or Organization) Identification No.)

7315 Wisconsin Avenue, 1100 West 20814
Bethesda, Maryland (Address of Principal Executive Offices) (Zip Code)
(240) 507-1300
(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 Interest, \$0.01 par value per share	New York Stock Exchange
6.50% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	New York Stock Exchange
6.375% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	New York Stock Exchange
6.375% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	New York Stock Exchange
6.3% Series F Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 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. Yes No

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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 (§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 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 this 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer 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 No

The aggregate market value of the 67,689,875 common shares of beneficial interest of the registrant held by non-affiliates of the registrant was \$2.6 billion 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 22, 2019 was 130,518,284.

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 April 30, 2019) are incorporated by reference into this Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

Pebblebrook Hotel Trust

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FORWARD-LOOKING STATEMENTS

This report, together with other statements and information publicly disseminated by us, contains certain "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"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may", "will", "should", "potential", "could", "seek", "assume", "forecast", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, our ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and our ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the hotel industry, including competition, changes in visa and other travel policies by the U.S. government making it less convenient, more difficult or less desirable for international travelers to enter the U.S., increases in employment costs, energy costs and other operating costs, or decreases in demand caused by events beyond our control including, without limitation, actual or threatened terrorist attacks, natural disasters, cyber-attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the global economy and real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), and the risk of changes in laws affecting REITs;
- the timing and availability of potential hotel acquisitions, our ability to identify and complete hotel acquisitions and our ability to complete hotel dispositions in accordance with our business strategy;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns; and
- the other factors discussed under the heading "Risk Factors" in this Annual Report on Form 10-K.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The "Company", "we" or "us" mean Pebblebrook Hotel Trust, a Maryland real estate investment trust, and one or more of its subsidiaries (including Pebblebrook Hotel, L.P., our operating partnership), or, as the context may require, Pebblebrook Hotel Trust only or Pebblebrook Hotel, L.P. only.

PART I

Item 1. Business.

General

Pebblebrook Hotel Trust is an internally managed hotel investment company, organized in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major U.S. cities, with an emphasis on the major gateway coastal markets. As of December 31, 2018, the Company owned 63 hotels with a total of 15,253 guest rooms.

Substantially all of the Company's assets are held by, and all of the operations are conducted through, Pebblebrook Hotel, L.P. (our "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 2018, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a REIT under the Code, it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL") and LaSalle Hotel Lessee Inc. (collectively with its subsidiaries, "LHL"), the Company's taxable REIT subsidiaries ("TRSs"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL and LHL are consolidated into the Company's financial statements.

Merger with LaSalle Hotel Properties

On November 30, 2018, we completed our merger with LaSalle Hotel Properties ("LaSalle"). Pursuant to the Agreement and Plan of Merger, dated as of September 6, 2018, as amended on September 18, 2018 (the "Merger Agreement"), by and among the Company, the Operating Partnership, Ping Merger Sub, LLC ("Merger Sub"), Ping Merger OP, LP ("Merger OP"), LaSalle and LaSalle Hotel Operating Partnership, L.P. ("LaSalle OP").

Pursuant to the Merger Agreement, on November 30, 2018, Merger OP merged with and into LaSalle OP (the "Partnership Merger") with LaSalle OP surviving as a subsidiary of the Operating Partnership. Immediately following the Partnership Merger, LaSalle merged with and into Merger Sub (the "Company Merger" and, together with the Partnership Merger, the "Mergers") with Merger Sub surviving as a wholly owned subsidiary of the Company. On December 3, 2018, Merger Sub assigned all of its rights and obligations to the Company and was liquidated and dissolved.

Upon completion of the Company Merger and pursuant to the Merger Agreement, each issued and outstanding LaSalle common share of beneficial interest, \$0.01 par value per share ("LaSalle common shares") (other than the 10.8 million LaSalle common shares held by us) was converted into the right to receive either (i) 0.92 of our common shares and cash in lieu of fractional shares, if any; or (ii) \$37.80 in cash, subject to certain adjustments and to any applicable withholding tax (the "Cash Consideration"). The maximum number of LaSalle common shares that were eligible to be converted into the right to receive the Cash Consideration was equal to 30% of the aggregate number of LaSalle common shares issued and outstanding immediately prior to completion of the Company Merger. LaSalle common shares held by us were excluded from the cash election in the Company Merger and were cancelled. In addition, each issued and outstanding LaSalle 6.375% Series I cumulative redeemable preferred share was converted into the right to receive one of our 6.375% Series E cumulative redeemable preferred shares and each issued and outstanding LaSalle 6.3% Series J cumulative redeemable preferred share was converted into the right to receive one of our 6.3% Series F cumulative redeemable preferred shares. As consideration in the Company Merger, we issued 61,399,104 of our common shares, 4,400,000 shares of our 6.375% Series E Cumulative Redeemable Preferred Shares (the "Series E Preferred Shares") and 6,000,000 shares of our 6.3% Series F Cumulative Redeemable Preferred Shares (the "Series F Preferred Shares") and paid an aggregate of \$1.7 billion in cash.

Upon completion of the Partnership Merger and under the terms of the Merger Agreement, each common unit of LaSalle OP (a “LaSalle OP Common Unit”) that was issued and outstanding immediately prior to completion of the Partnership Merger, other than LaSalle OP Common Units held by LaSalle and its subsidiaries, was cancelled and converted into the right to receive 0.92 common units of the Operating Partnership, without interest. As consideration in the Partnership Merger for our acquisition of the common units of the operating partnership of LaSalle not held by LaSalle or its affiliates, the Operating Partnership issued 133,605 of its common units.

The combined company, headquartered in Bethesda, Maryland, continues to be led by the senior management team that was leading the Company prior to the Mergers. Additional information on the Mergers can be found in Note 3 to the accompanying consolidated financial statements.

Business Objectives and Strategies

Acquisitions/Investments

We invest in hotel properties located primarily in major U.S. cities, including Atlanta, Boston, Chicago, Key West, Los Angeles, Miami, Nashville, Naples, New York, Philadelphia, Portland, Santa Monica, San Diego, San Francisco, Seattle and Washington, D.C., with an emphasis on major gateway urban markets. We believe these markets have high barriers-to-entry and provide diverse sources of meeting and room night demand generators. In addition, we also opportunistically target investments in resort properties located near our primary urban target markets, as well as in select destination resort markets such as south Florida and southern California. We focus on both branded and independent full-service hotels in the “upper upscale” segment of the lodging industry. The full-service hotels on which we focus our investment activity generally have one or more restaurants, lounges, meeting facilities and other amenities, as well as high levels of customer service. We believe that our target markets, including the major gateway markets, are characterized by high barriers-to-entry and that room-night demand and average daily rate (“ADR”) growth of these types of hotels will outperform the national average over the long-term, as they have in past cyclical recoveries and growth periods.

We perform and utilize extensive research to evaluate any target market and property, including a detailed review of the long-term economic outlook, trends in local demand generators, competitive environment, property systems and physical condition and property financial performance. Specific acquisition criteria may include, but are not limited to, the following:

- premier locations, facilities and other competitive advantages not easily replicated;

• high barriers-to-entry in the market, such as scarcity of development sites, regulatory hurdles, high per-room development costs and long lead times for new development;

• acquisition prices at a discount to replacement cost;

• properties not subject to long-term management contracts with hotel management companies;

• potential return on investment initiatives, including redevelopment, rebranding, redesign, expansion and change of management;

• opportunities to implement value-added operational improvements; and

• strong demand growth characteristics supported by favorable demographic indicators.

We believe that upper-upscale, full-service hotels and resorts and upscale, select-service hotels located in major U.S. urban, convention and drive-to and destination resort markets are likely to generate the most favorable returns on investment in the lodging industry over the long-term. However, short-term increases in supply above historical averages in certain markets may temporarily affect these long-term favorable returns. Nationally, new hotel supply growth has increased from its historically low levels and is generally in-line with demand growth. Industry occupancy levels are expected to remain flat. Supply growth has increased, particularly in certain of our markets, however, construction financing is becoming more difficult to obtain. In addition, fundamentals are improving as corporate profits strengthen and employment levels increase. This may improve the ability of our hotels to increase room rates. We believe that portfolio diversification will allow us to capitalize from growth in various customer segments, including business transient, leisure transient and group and convention room-night demand, as well as mitigate the negative impact from increases in hotel room supply.

We generally seek to enter into flexible management contracts, when possible, with third-party hotel management companies for the operation of our hotels that provide us with the ability to replace operators and/or reposition

properties, to the extent that we determine to do so and align our operators with our objective of maximizing our return on investment. In addition, we believe that flexible management contracts facilitate the sale of hotels, and we may seek to sell hotels opportunistically if we believe sales proceeds may be invested in other hotel properties that offer more attractive risk-adjusted returns.

We may engage in full or partial redevelopment, renovation and repositioning of certain properties, as we seek to maximize the financial performance of our hotels. In addition, we may acquire properties that require significant capital improvement, renovation or refurbishment. Over the long-term, we may acquire hotel and resort properties that we believe would benefit from significant redevelopment or expansion, including, for example, adding rooms, meeting facilities or other amenities.

We may consider acquiring outstanding debt secured by a hotel or resort property from lenders and investors if we believe we can foreclose on or acquire ownership of the property in the near-term. In connection with our acquisitions, generally we do

not intend to originate any debt financing or purchase any debt where we do not expect to gain ownership of the underlying property. Additionally, we have co-invested, and may in the future co-invest, in hotels with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for a property, partnership, joint venture or other entity.

Asset Management

While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels' operations, including property positioning and repositioning, revenue and expense management, operations analysis, physical design, renovation and capital improvements, guest experience and overall strategic direction. We believe we can add significant value to our portfolio through our intensive asset management strategies. Our executives and asset management team have significant experience in hotel operations and creating and implementing innovative asset management initiatives.

We have developed strategic short- and long-term capital investment plans to enhance our hotels' profitability through the strategic use of, among others, expansions, additions, renovations, technology upgrades and modifications, and energy efficiency improvements. We are also focused on revenue and expense management at our properties. We work closely with our hotel operators to evaluate optimal market mix and pricing strategies, ensure quality staffing and appropriate management focus, implement best practices to minimize expenses and aggressively monitor and evaluate our hotels' operations and performance.

Financing Strategies

Over time, we intend to finance our long-term growth with issuances of common and preferred equity securities and debt financings having staggered maturities. Our debt includes senior unsecured credit facilities, term loans, unsecured notes, mortgage debt secured by our hotel properties or our leasehold interests on our hotel properties subject to ground leases and may include other unsecured debt in the future.

We anticipate using our senior unsecured revolving credit facilities, term loans, senior unsecured notes, common and preferred equity issuances, and mortgage debt financings to fund future acquisitions as well as for property redevelopments, return on investment initiatives and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under our senior unsecured revolving credit facilities from time to time with proceeds from periodic common and preferred equity issuances, long-term debt financings, cash flows from operations and opportunistic or strategic dispositions.

When purchasing hotel properties, we may issue limited partnership interests 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 of beneficial interest, or common shares. To date, we have not issued any limited partnership interests in our Operating Partnership to purchase hotel properties.

Competition

We compete for hotel investment opportunities with institutional investors, private equity investors, other REITs and numerous local, regional, national and international owners, including franchisors, in each of our target markets. Some of these entities have substantially greater financial resources than we do and may be able and willing to accept more risk than we can prudently manage. Competition generally may increase the bargaining power of property owners seeking to sell and reduce the number of suitable investment opportunities offered to us or purchased by us.

The hotel industry is highly competitive. Our hotels compete with other hotels, and alternative lodging marketplaces, for guests in our markets. Competitive factors include, among others, location, convenience, brand affiliation, room

rates, range of services, facilities and guest amenities or accommodations offered and quality of guest service. Competition in the markets in which our hotels operate includes competition from existing, newly renovated and newly developed hotels in the relevant segments. Competition can adversely affect the occupancy, ADR and room revenue per available room ("RevPAR") of our hotels, and thus our financial results, and may require us to provide additional amenities, incur additional costs or make capital improvements that we otherwise might not choose to make, which may adversely affect our profitability.

Seasonality

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Demand in the lodging industry is affected by recurring seasonal patterns which are greatly influenced by overall economic cycles, geographic locations, weather and the customer mix at the hotels. Generally, our hotels have lower revenue, operating income and cash flow in the first quarter and higher revenue, operating income and cash flow in the third quarter.

Regulations

Our hotel properties are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible we could incur these costs even after we sell a property. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow using the property as collateral or to sell the property. Under the environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals (such as swimming pool chemicals at a hotel property) to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our shareholders. Prior to closing a property acquisition, we obtain Phase I environmental site assessments, or ESAs, in order to attempt to identify potential environmental concerns at the properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I ESAs or other information indicates possible contamination or where our consultants recommend such procedures. However, these Phase I ESAs or other investigations may not reveal all environmental costs that might have a material adverse effect on our business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

We believe that our hotels are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on us. We have not received written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our properties.

Our properties must comply with Title III of the Americans with Disabilities Act (the "ADA") to the extent that such properties are "public accommodations" as defined by the ADA. 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. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in litigation, retrofit costs and imposition of fines or an award of damages to private litigants. Additionally, properties which we may acquire may not be in compliance with the requirements of the ADA, and we

endeavor to identify such noncompliance prior to our acquisition. 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 in this respect.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code. As a result, we generally are not subject to corporate federal income tax on that portion of our REIT taxable income that we currently distribute to our shareholders. A REIT is subject to numerous organizational and operational requirements, including requirements concerning the nature of our gross income and assets and specifying generally that we must distribute at least 90 percent of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) each year. We will be subject to federal income tax on our taxable income at regular corporate rates (at a 35% rate through 2017 and a 21% rate in 2018 and subsequent years) if we fail to qualify as a REIT for federal income tax purposes in any taxable year, or to the extent we distribute less than 100 percent of our REIT taxable income. We will also not be permitted to qualify for treatment as

a REIT for federal income tax purposes for four years following the year during which qualification is lost. Even if we continue to qualify as a REIT for federal income tax purposes, we will be subject to certain state and local income, franchise and property taxes.

For us to qualify as a REIT under the Code, we cannot operate the hotels we own and acquire. Therefore, our Operating Partnership and its subsidiaries lease our hotel properties to our TRS lessees who in turn engage third-party eligible independent contractors to manage our hotels. The earnings of TRS lessees are subject to taxation like other regular C corporations.

Joint Venture

We hold a 99.99% controlling interest in The Liberty, A Luxury Collection Hotel, Boston. Since we hold a controlling interest, the joint venture has been consolidated in our financial statements. The 0.01% interest of the third party partner is included in non-controlling interests in the consolidated balance sheets.

Employees

We currently employ 50 full-time employees. None of our employees is a member of a union; however, some employees of the hotel managers at several of our hotels are currently represented by labor unions and are subject to collective bargaining agreements.

Available Information

Our Internet website is located at www.pebblebrookhotels.com. Copies of the charters of the committees of our board of trustees, our code of business conduct and ethics and our corporate governance guidelines are available on our website. All reports that we have filed with the United States Securities and Exchange Commission (the "SEC") including this Annual Report on Form 10-K and our current reports on Form 8-K, can be obtained free of charge from the SEC's website at www.sec.gov or through our website.

Item 1A. Risk Factors.

The following discussion concerns some of the risks associated with our business and should be considered carefully. These risks are interrelated and you should treat them as a whole. Additional risks and uncertainties not presently known to us may also materially and adversely affect our business operations, the value of our shares and our ability to pay dividends to our shareholders. In connection with the forward-looking statements that appear in this Annual Report on Form 10-K, in these risk factors and elsewhere, you should carefully review the section entitled "Forward-Looking Statements."

Risks Related to Our Business and Properties

We depend on the efforts and expertise of our executive officers and would be adversely affected by the loss of their services.

We depend on the efforts and expertise of our Chairman, President and Chief Executive Officer, as well as our other executive officers, to execute our business strategy. The loss of their services, and our inability to quickly identify and hire suitable replacements, could have an adverse effect on our business activities, including, without limitation, relationships with shareholders, lenders, management companies, joint venture partners and other industry personnel. Our returns could be negatively impacted if the third-party management companies that operate our hotels do not manage our hotel properties effectively.

Because U.S. federal income tax laws restrict REITs and their subsidiaries from operating or managing a hotel, we do not operate or manage any of our hotel properties. Instead, we lease all of our hotel properties to subsidiaries that qualify as TRSs, under applicable REIT laws, and our TRS lessees retain third-party managers to operate our hotels pursuant to management contracts. Our cash flow from the hotels may be adversely affected if our managers fail to provide quality services and amenities or if they or their affiliates fail to maintain a quality brand name. In addition, our managers or their affiliates may manage, and in some cases may own, invest in or provide credit support or operating guarantees, to hotels that compete with hotel properties that we own or acquire, which may result in

conflicts of interest and decisions regarding the operation of our hotels that are not in our best interests.

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We do not have the authority to require any hotel property to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel property (for example, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, RevPAR and ADR, we cannot force the management company to change its method of operating our hotels. We generally will attempt to resolve issues with our managers through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate the dispute or submit the matter to third-party dispute resolution. We can only seek redress if a management company violates the terms of the applicable management contract with a TRS lessee, and then only to the extent of the remedies provided for under the terms of the management contract. Additionally, in the event that we need to replace any management company, we may be required by the terms of the management contract to pay substantial termination fees and may experience significant disruptions at the affected hotels.

Our TRS lessee structure subjects us to the risk of increased hotel operating expenses.

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 increases in: wage and benefit costs, which may include an increase in minimum wages and health benefit costs; repair and maintenance expenses; 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 ability to make distributions to our shareholders is subject to fluctuations in our financial performance, operating results and capital improvements requirements.

To maintain our qualification as a REIT for U.S. federal income tax purposes, we are required to distribute at least 90 percent of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year to our shareholders and we generally expect to make distributions in excess of such amount. In the event of downturns in our operating results, unanticipated capital improvements to our hotel properties or other factors, we may be unable to declare or pay distributions to our shareholders. The timing and amount of distributions are in the sole discretion of our board of trustees which will consider, among other factors, our financial performance, any debt service obligations, any debt covenants and capital expenditure requirements. We cannot assure you that we will generate sufficient cash in order to fund distributions.

We invest primarily in the upper-upscale segment of the lodging market, which is highly competitive and generally subject to greater volatility than most other market segments and could negatively affect our profitability.

The upper-upscale segment of the hotel business is highly competitive. Our hotel properties compete on the basis of location, room rates, quality, service levels, reputation and reservations systems, among many factors. There are many competitors in the upper-upscale segment, and many of these competitors may have substantially greater marketing and financial resources than we have. This competition could reduce occupancy levels and RevPAR at our hotels. In addition, in periods of weak demand, as may occur during a general economic recession, profitability is adversely affected by the relatively high fixed costs of operating upper-upscale hotels.

Restrictive covenants in our management contracts could preclude us from taking actions with respect to the sale or refinancing of a hotel property that would otherwise be in our best interest.

We may enter into management contracts that contain some restrictive covenants or acquire properties subject to existing management contracts that do not allow the flexibility we seek, including management contracts that restrict our ability to terminate the contract or require us to pay significant termination fees. For example, the terms of some management contracts may restrict our ability to sell a property unless the purchaser is not a competitor of the manager and assumes the related management contract and meets specified other conditions which may preclude us from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense.

Due to our concentration in hotel investments primarily in major gateway urban markets, a downturn in the lodging industry generally or a regional downturn in the markets in which we operate would adversely affect our operations and financial condition.

Our primary business is hotel-related. Therefore, a downturn in the lodging industry, in general, and the segments and markets (especially West Coast major gateway metropolitan markets) in which we operate, in particular, would have a

material adverse effect on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Any joint venture investments that we may make in the future could be adversely affected by our lack of sole decision-making authority, our reliance on our co-venturers' financial condition and disputes between us and our co-venturers.

We may co-invest in hotels in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for a property, partnership, joint venture or other entity. In this event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments through partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt, fail to fund their share of required capital contributions, make dubious business decisions or block or delay necessary decisions. Partners or co-venturers may have economic or other business interests or goals which 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 or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers 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, action by, or disputes with, partners or co-venturers 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 or co-venturers.

Our hotels operated under franchise agreements are subject to risks arising from adverse developments with respect to the franchise brand and to costs associated with maintaining the franchise license.

Certain of our hotel properties operate under franchise agreements and we anticipate that some of the hotels we acquire in the future will operate under franchise agreements. We are therefore subject to the risks associated with concentrating hotel investments in several franchise brands, including reductions in business following negative publicity related to one of the brands or the general decline of a brand.

Maintenance of franchise licenses for branded hotel properties is subject to franchisors' operating standards and other terms and conditions including the requirement to make certain capital improvements. Franchisors periodically inspect hotel properties to ensure that we and our lessees and management companies follow their standards. Failure by us, one of our TRS lessees or one of our third-party management companies to maintain these standards or other terms and conditions could result in a franchise license being canceled. If a franchise license is canceled due to our failure to make required improvements or to otherwise comply with its terms, we also may be liable to the franchisor for a termination payment, which varies by franchisor and by hotel property.

The loss of a franchise license could materially and adversely affect the operations and the underlying value of the hotel property because of the loss of associated name recognition, marketing support and centralized reservation system provided by the franchisor and adversely affect our revenues, financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Debt service obligations could adversely affect our overall operating results, may require us to sell hotel properties, may jeopardize our qualification as a REIT and could adversely affect our ability to make distributions to our shareholders and the market price of our common shares.

Our business strategy includes the use of both secured and unsecured debt to finance long-term growth. Incurring debt subjects us to many risks, including the risks that our cash flow from operations will be insufficient to make required payments of principal and interest, our debt 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, and the terms of any refinancing will not be as favorable as the terms of the debt being refinanced.

We have placed and will continue to place mortgages on certain of our hotel properties to secure debt. To the extent we cannot meet any of our debt service obligations, we may be required to sell or we will risk losing to foreclosure some or all of our mortgaged hotel properties. If we are required to sell one or more of our hotel properties to meet debt service obligations, we may have to accept unfavorable terms. Also, covenants applicable to debt could impair our planned investment strategy and, if violated, result in a default. If we violate covenants relating to indebtedness, 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. In addition, future indebtedness agreements may

require that we meet certain covenant tests in order to make distributions to our shareholders. Higher interest rates could increase debt service requirements on any of our floating rate debt, including our senior unsecured revolving credit facilities, 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. We have obtained, and we may in the

future obtain, one or more forms of interest rate protection — in the form of swap agreements, interest rate cap contracts or similar agreements that are consistent with our intention to remain qualified as a REIT — to “hedge” against the possible negative effects of interest rate fluctuations. However, such hedging incurs 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. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

Our senior executive officers have broad discretion to make investments, and they may make investments where the returns are substantially below expectations or which result in net operating losses.

Our senior executive officers have broad discretion, within the general investment criteria established by our board of trustees, to invest our capital and to determine the timing of such investments. In addition, our investment policies may be 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 expectations.

Some of our hotels are subject to rights of first offer which may adversely affect our ability to sell those properties on favorable terms or at all.

We are subject to a franchisor’s or operator’s right of first offer, in some instances. These third-party rights may adversely affect our ability to timely dispose of these properties on favorable terms, or at all.

The purchase or sale of properties we put under contract may not be consummated.

From time to time, we enter into purchase and sale agreements for hotel properties. These transactions, whether or not consummated, require substantial time and attention from management. Furthermore, potential acquisitions and potential dispositions require significant expense, including expenses for due diligence, marketing, legal fees and related overhead. To the extent we do not consummate one or more of the transactions, these expenses will not be offset by revenues or proceeds from these properties or dispositions.

If we cannot obtain financing, our growth will be limited.

To maintain our qualification as a REIT for U.S. federal income tax purposes, we are required to distribute at least 90 percent of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding any net capital gains) each year to our shareholders and we generally expect to make distributions in excess of such amount. As a result, our ability to retain earnings to fund acquisitions, redevelopment and development or other capital expenditures is and will continue to be limited. Although our business strategy contemplates future access to debt financing (in addition to our senior unsecured revolving credit facilities and term loans) to fund acquisitions, redevelopment, development, return on investment initiatives and working capital requirements, there can be no assurance that we will be able to obtain such financing on favorable terms or at all. Events in financial markets have adversely impacted the credit markets, and they may do so in the future, and, as a result, credit can become significantly more expensive and difficult to obtain, if available at all. Tightening credit markets may have an adverse effect on our ability to obtain financing on favorable terms, if at all, thereby increasing financing costs and/or requiring us to accept financing with increased restrictions and/or significantly higher interest rates. If adverse conditions in the credit markets—in particular with respect to real estate or lodging industry finance—materially deteriorate, our business could be materially and adversely affected.

Our cash and cash equivalents are maintained in a limited number of financial institutions and the funds in those institutions may not be fully or federally insured.

We maintain cash balances in a limited number of financial institutions. Our cash balances are generally in excess of federally insured limits. The failure or collapse of one or more of these financial institutions may materially adversely affect our ability to recover our cash balances.

Our conflicts of interest policy may not adequately address all of the conflicts of interest that may arise with respect to our activities.

In order to avoid any actual or perceived conflicts of interest with our trustees, officers or employees, we have adopted a conflicts of interest policy to specifically address some of the conflicts relating to our activities. Although under this policy any transaction, agreement or relationship in which any of our trustees, officers or employees has an interest must have the approval of a majority of our disinterested trustees, there is no assurance that this policy will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that is favorable to us.

Risks Related to Debt and Financing

Our existing indebtedness contains financial covenants that could limit our operations and our ability to make distributions to our shareholders.

The credit agreements that govern our existing senior unsecured revolving credit facilities and unsecured term loan facilities contain financial and operating covenants, such as net worth requirements, fixed charge coverage, debt ratios and other limitations that restrict our ability to make distributions or other payments to our stockholders, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions without the consent of the lenders. In addition, our existing property-level debt contains restrictions (including cash management provisions) that may under circumstances specified in the loan agreements prohibit our subsidiaries that own our hotels from making distributions or paying dividends, repaying loans to us or other subsidiaries or transferring any of their assets to us or another subsidiary which could adversely affect our ability to make distributions to our shareholders. Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of additional debt or changes in general economic conditions. Such failures could cause one or more of our lenders to accelerate the timing of payments and could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our shareholders. The terms of our debt may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our shareholders.

Some of our existing mortgage debt agreements may contain “cash trap” provisions that could limit our ability to make distributions to our shareholders.

Some of our mortgage loan agreements may contain cash trap provisions that may be triggered if the performance of the hotels securing the loans declines below a threshold. If these provisions are triggered, substantially all of the profit generated by the hotel will be deposited directly into a lockbox account and then swept into a cash management account for the benefit of the lender. In that event, cash would be distributed to us only after certain items are paid, including deposits into leasing and maintenance reserves and the payment of debt service, insurance, taxes, operating expenses and extraordinary capital expenditures and leasing expenses. This could adversely affect our liquidity and our ability to make distributions to our shareholders.

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization; therefore, the vast majority of the principal must be repaid at the maturity of the loan in a so-called “balloon payment.” At the maturity of these loans, assuming we do not have sufficient funds to repay the debt, we will need to refinance the debt. If the credit environment is constrained at the time of our debt maturities, we would have a very difficult time refinancing debt or refinancing terms may be at substantially higher interest rates and/or lower proceeds. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more hotels at disadvantageous terms, including unattractive prices, or defaulting on the mortgage and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our shareholders.

If we default on our secured debt in the future, the lenders may foreclose on our hotels.

All of our indebtedness for borrowed money, except our senior unsecured revolving credit facility, term loans and senior unsecured notes, is secured by either single property first mortgage liens or leasehold interests under the ground leases on the applicable hotel. If we default on any of the secured loans, the applicable lender will be able to foreclose on the property pledged to secure the loan.

In addition to causing us to lose the property, a foreclosure may result in taxable income. Under the Code, a foreclosure would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure even though we did not receive any cash proceeds. As a result, we may then be required to identify and utilize other sources of cash for distributions to our shareholders. If this occurs, our financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay distributions may be adversely affected.

Acquiring outstanding debt secured by a hotel or resort property may expose us to risks of costs and delays in acquiring the underlying property.

We may acquire outstanding debt secured by a hotel or resort property from lenders and investors if we believe we can ultimately foreclose or otherwise acquire ownership of the underlying property in the near-term through foreclosure, deed-in-lieu of foreclosure or other means. However, if we do acquire such debt, borrowers may seek to assert various defenses to our foreclosure or other actions and we may not be successful in acquiring the underlying property on a timely basis, or at all, in which event we could incur significant costs and experience significant delays in acquiring such properties, all of which could

adversely affect our financial performance and reduce our expected returns from such investments. In addition, we may not earn a current return on such investments particularly if the loan that we acquire is in default.

Changes in the method of determining the London Interbank Offered Rate (“LIBOR”), or the replacement of LIBOR with an alternative reference rate, may adversely affect our financial results.

As of December 31, 2018, all of the debt outstanding under our unsecured term loans and our senior unsecured revolving credit facilities was indexed to LIBOR. In July 2017, the Financial Conduct Authority (“FCA”), which regulates LIBOR, announced its intention to phase out LIBOR rates by the end of 2021. We cannot predict the further effect of the FCA’s announcement, any changes in the methods by which LIBOR is determined or any other reforms to LIBOR that may be enacted in the United Kingdom, the European Union or elsewhere. Such developments may cause LIBOR to perform differently than in the past, or cease to exist. In addition, any other legal or regulatory changes made by the FCA, ICE Benchmark Administration Limited, the European Money Markets Institute, the European Commission or any other successor governance or oversight body, or future changes adopted by such body, in the method by which LIBOR is determined or the transition from LIBOR to a successor benchmark may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR, and changes in the rules or methodologies in LIBOR, which may discourage market participants from continuing to administer or to participate in LIBOR’s determination, and, in certain situations, could result in LIBOR no longer being determined and published. If a published U.S. dollar LIBOR rate is unavailable after 2021, the interest rates on our debt which is indexed to LIBOR will be determined using alternative methods, which may result in interest obligations which are more than or do not otherwise correlate over time with the payments that would have been made on such debt if U.S. dollar LIBOR was available in its current form. Further, the same costs and risks that may lead to the unavailability of U.S. dollar LIBOR may make one or more of the alternative methods impossible or impracticable to determine. Any of these proposals or consequences could have a material adverse effect on our financing costs, and as a result, our financial condition, operating results and cash flows.

Risks Related to the Lodging Industry

Economic conditions may reduce demand for hotel properties and adversely affect hotel profitability.

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. GDP. It is also sensitive to business and personal discretionary spending levels. Declines in corporate travel budgets and consumer demand due to adverse general economic conditions, such as declines in U.S. GDP, risks affecting or reducing travel patterns (such as governmental restrictions on in-bound international travel), lower consumer confidence or adverse political conditions can lower the revenues and profitability of hotel properties and therefore the net operating profits of our TRS lessees to whom we lease our hotel properties. Another global economic downturn may lead to a significant decline in demand for products and services provided by the lodging industry, lower occupancy levels and significantly reduced room rates.

We cannot predict the pace or duration of the global economic cycles or the cycles in the lodging industry. A period of economic weakness would likely have an adverse impact on our revenues and negatively affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

Our hotel properties have different economic characteristics than many other real estate assets and a hotel REIT is structured differently than many other types of REITs. Our TRS lessees engage hotel managers pursuant to management contracts and pay the managers fees for managing the hotels. The TRS lessees receive all the operating profit or losses of the hotels. Moreover, virtually all hotel guests stay at a hotel for only a few nights at a time, so the rate and occupancy at each of our hotels changes daily. As a result, we may have highly volatile earnings.

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

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competition from other hotel properties and non-hotel properties that provide nightly and short-term rentals in our markets;

• over-building of hotels in our markets, which could adversely affect occupancy and revenues at our hotel properties;

• dependence on business and commercial travelers, conventions and tourism;

- increases in energy costs, airplane fares, government taxes and fees, and other expenses 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;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations (including minimum wage increases), fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- labor strikes or disruptions;

unforeseen events beyond our control, such as terrorist attacks, cyber-attacks, travel-related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu, Zika virus and SARS, 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 or earthquakes;

- strength of the U.S. dollar which may reduce in-bound international travel and encourage out-bound international travel;
- adverse effects of a downturn in the lodging industry; and
- risks generally associated with the ownership of hotel properties and real estate, as we discuss in more detail below.

These factors could reduce the revenues and net operating profits of our TRS lessees, which in turn 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.

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

We compete for investment opportunities with entities that may have substantially greater financial and other resources than we have. These entities generally may be able to accept more risk than we can prudently manage. This competition may generally limit the number of suitable investment opportunities offered to us or the number of properties that we are able to acquire. This competition may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms.

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

The lodging industry is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in our revenues. Our 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 certain quarters in order to offset these fluctuations in revenues and to make distributions to our shareholders.

The cyclical nature of the lodging industry may cause the returns from our investments to be less than we expect.

The lodging industry is highly cyclical in nature. Fluctuations in lodging demand and, therefore, hotel operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect lodging industry fundamentals, and over-building has the potential to exacerbate the negative impact of poor economic conditions. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. A decline in lodging demand, or a continued growth in lodging supply, could result in continued deterioration in lodging industry fundamentals and returns that are substantially below expectations, or result in losses, 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.

Capital expenditure requirements at our properties may be costly and require us to incur debt, postpone improvements, reduce distributions or otherwise adversely affect the results of our operations and the market price of our common shares.

Some of the hotel properties we acquire need renovations and capital improvements at the time of acquisition and all the hotel properties we have acquired and will acquire in the future will have an ongoing need for renovations and other capital

improvements, including replacement, from time to time, of furniture, fixtures and equipment. The franchisors, if any, of our hotel properties also require periodic capital improvements as a condition to our maintaining the franchise licenses. In addition, our lenders often require that we set aside annual 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;
- the possibility that revenues will be reduced while rooms or restaurants 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 to us on attractive terms; and
- uncertainties as to market demand or a loss of market demand after capital improvements have begun.

The costs of renovations and capital improvements 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. Hotel and resort development and redevelopment is subject to timing, budgeting and other risks that may adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

We may engage in hotel development and redevelopment if suitable opportunities arise. Hotel development and redevelopment involves a number of risks, including risks associated with:

- construction delays or cost overruns that may increase project costs;
- the receipt of zoning, occupancy and other required governmental permits and authorizations;
- development costs incurred for projects that are not pursued to completion;
- acts of God such as earthquakes, hurricanes, floods or fires that could adversely impact a project;
- the negative impact of construction on operating performance during and soon after the construction period;
- the ability to raise capital; and
- governmental restrictions on the nature or size of a project.

We cannot assure you that any development or redevelopment project will be completed on time or within budget.

Our inability to complete a project on time or within budget 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.

The increasing use by consumers of Internet travel intermediaries and alternative lodging marketplaces may reduce our revenues.

Some of our hotel rooms are booked through Internet travel intermediaries, such as Travelocity.com, Expedia.com and Priceline.com. As bookings through these intermediaries increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from the management companies that operate the hotels we own and acquire. 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 or quality of product or service. These intermediaries hope that consumers will eventually develop brand loyalties to their reservations system rather than to lodging brands or properties. Additional sources of competition, such as alternative lodging marketplaces like Airbnb, may, as they become more accepted, lead to a reduced demand for conventional hotel guest rooms and to an increased supply of lodging alternatives. If the amount of bookings made through Internet travel intermediaries or the use of alternative lodging marketplaces prove to be more significant than we expect, profitability may be lower than expected, and our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders may be adversely affected.

We may be adversely affected by increased use of business-related technology which may reduce the need for business-related travel.

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. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, hotel room demand may decrease

and our financial

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condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders may be 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. Recently, a number of hotels and hotel management companies have been subject to successful cyber-attacks, including those seeking guest credit card information. 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, ransomware, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information or theft of corporate funds and expose us to claims by guests whose personal information is accessed. 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.

Many of our hotel managers carry cyber insurance policies to protect and offset a portion of potential costs that may be incurred from a security breach. Additionally, we currently have cyber insurance policies to provide supplemental coverage above the coverage carried by our third-party managers. Despite various precautionary steps to protect our hotels from losses resulting from cyber-attacks, however, any occurrence of a cyber-attack could still result in losses at our properties, which could affect our results of operations. We are not aware of any cyber incidents that we believe to be material or that could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor.

Our third-party hotel managers are responsible for hiring and maintaining the labor force at each of our hotels. Although we do not directly employ or manage employees at our hotels, we are subject to risks associated with the employment of hotel personnel, particularly at those hotels with unionized labor. From time to time, strikes, lockouts, public demonstrations or other negative actions and publicity may disrupt hotel operations. In addition, we may be affected by shortages of qualified labor. If our managers are unable to hire qualified labor, our hotel customers may not receive adequate service. We also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. The resolution of labor disputes or new or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. Furthermore, collective bargaining agreements, negotiated between the hotel managers and labor unions, may limit the ability of the hotel managers to reduce the size of hotel workforces during economic downturns. We do not have the ability to control negotiations between hotel managers and labor unions. In addition, we believe that unions are generally becoming more aggressive about organizing workers at hotels in certain locations. Potential labor activities at these hotels could significantly increase the administrative, labor and legal expenses of the third-party management companies operating these hotels and reduce the profits we receive. If additional employees at our hotels become unionized, this could have a material adverse effect on our business, financial condition and results of operations.

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 definitively determined, but any such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

Uninsured and underinsured losses could result in a loss of capital.

We maintain comprehensive property insurance on each of our hotel properties, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that

coverage will remain available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods, and losses from terrorist activities, may not be insurable in whole or in part or may not be available on terms that we consider acceptable.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full market value or replacement cost of our 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 have invested in a hotel property, as well as the anticipated future revenue from the property. 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.

Our hotels may be subject to unknown or contingent liabilities which could cause us to incur substantial costs. The hotel properties that we own or may acquire are or may be subject to unknown or contingent liabilities for which we may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under the transaction agreements related to the sales of the hotel properties may not survive the closing of the transactions. While we will seek to require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with these hotels may exceed our expectations, and we may experience other unanticipated adverse effects, all of which may adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Noncompliance with environmental laws and regulations could subject us to fines and liabilities which could adversely affect our operating results.

Our hotel properties are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated, and therefore it is possible we could incur cleanup costs even after we sell some of the properties we acquire. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property. Under the environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment. A person that arranges for the disposal or transports for disposal or treatment of a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Also, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals (such as swimming pool chemicals at a hotel property) to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and 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.

As a result, we may become subject to material environmental liabilities. We can make no assurances that future laws or regulations will not impose material environmental liabilities or that the current environmental condition of our hotel properties will not be affected by the condition of the properties in the vicinity of our hotel properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

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. Some of our properties may contain microbial matter such as mold

and mildew. The presence of significant mold at any of our hotel properties could require us to undertake a costly remediation program to contain or remove the mold from the affected property. The presence of significant mold could expose us to liability from hotel guests, hotel employees and others if property damage or health concerns arise. Compliance with the Americans with Disabilities Act could require us to incur substantial costs.

Under the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. While we believe that our hotels are substantially in compliance with these requirements, a determination to the contrary could require removal of access barriers and non-compliance could result in litigation costs, costs to remediate deficiencies, U.S. government fines or damages to private litigants.

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 nature of the operations of our hotels exposes us to the risk of claims and litigation that may arise in the normal course of business.

As owners of hotel properties, we face potential claims, litigation and threatened litigation from guests, visitors to our properties, contractors, sub-contractors and others. These claims and proceedings are inherently uncertain and their costs and outcomes cannot be predicted with certainty. Regardless of their outcomes, such claims and legal proceedings can have an adverse impact on us because of the legal and other costs, diversion of management time and resources and other factors. Although we and our hotel management companies maintain insurance covering some of these matters, it is possible that one or more claims, suits or proceedings may not be covered by insurance and could result in substantial costs, judgments, fines and penalties that could adversely affect our business, consolidated financial position, results of operations or cash flows.

A delay in approving a budget and/or continuing appropriation legislation to fund the operations of the federal government, failure to raise the borrowing limit for the federal government, and other legislative changes and governmental disruptions could affect travel directly and indirectly and may thereby negatively impact our revenues and cash available for distributions.

The delay in approving a budget and continuing appropriation legislation to fund the operations of the federal government caused many federal agencies to cease or curtail some activities during the fourth quarter of 2013 and for an even longer period of time beginning in the fourth quarter of 2018. In April 2013, the Federal Aviation Administration announced the implementation of furloughs of air traffic controllers, resulting in flight delays throughout the United States until the U.S. Congress passed a bill suspending such furloughs. There can be no assurance that similar action or inaction by federal or state government agencies, or other efforts to reduce government expenditures or growth, will not occur again in future periods, resulting in difficulties and discouraging travel or meetings and conferences. The reduction in income from both businesses and federal government employees and the possibility of another federal government impasse may adversely affect consumer confidence or may discourage both business and leisure travel, resulting in the deferral or cancellation of travel and a negative effect on our group and transient revenues in the future. Such impacts could have a material adverse impact on our consolidated financial statements.

General Risks Related to the Real Estate Industry

Illiquidity of real estate investments could significantly impede our ability to sell hotels or otherwise respond to adverse changes in the performance of our hotel properties.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotel properties for reasonable prices in response to changing economic, financial and investment conditions will be limited. The real estate market is affected by many factors 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

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civil unrest, acts of God, including earthquakes, floods, wildfires and other natural disasters, which may result in uninsured losses, and acts of war or terrorism.

We have acquired hotels, and may acquire additional hotels in the future, subject to ground leases or other leasehold interests. Sales of property subject to such leases may require the consent of the lessors. This consent requirement may make it more difficult or expensive to sell or finance the hotels subject to ground leases or other leasehold interests. We may decide to sell hotel properties in the future. We cannot predict whether we will be able to sell any hotel property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property.

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 the hotel properties or a need for liquidity 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 states and localities in which we own material amounts of property or conduct material amounts of business raise their income and property tax rates or amend their tax regimes in a manner that increases our state and local tax liabilities, we would have less cash available for distribution to our shareholders and the market price of our shares could be adversely affected.

We and our subsidiaries are subject to income tax and other taxes by states and localities in which we conduct business. Additionally, we are and will continue to be subject to property taxes in states and localities in which we own property, and our TRS lessees are and will continue to be subject to federal, state and local corporate income tax. States and localities may seek additional sources of revenue to reduce budget deficits and otherwise improve their financial condition or provide more services, they may, among other steps, raise income and property tax rates and/or amend their tax regimes to eliminate for state income tax purposes the favorable tax treatment REITs enjoy for U.S. federal income tax purposes. We cannot predict when or if any states or localities would make any such changes, or what form those changes would take. If states and localities in which we own material amounts of property or conduct material amounts of business make changes to their tax rates or tax regimes that increase our state and local tax liabilities, such increases would reduce the amount of cash available for distribution to our shareholders and could adversely affect the market price of our shares.

The costs of compliance with or liabilities under environmental laws could significantly reduce our profitability. Operating expenses at our hotels could be higher than anticipated due to the cost of complying with existing or future environmental laws and regulations. In addition, an owner of real property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We may face liability regardless of:

- our lack of knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

Environmental laws also impose ongoing compliance requirements on owners and operators of real property. Environmental laws potentially affecting us address a wide variety of matters, including, but not limited to, asbestos-containing building materials, storage tanks, storm water and wastewater discharges, lead-based paint, mold/mildew and hazardous wastes. Failure to comply with these laws could result in fines and penalties and/or expose us to third-party liability. Some of our properties may have conditions that are subject to these requirements, and we could be liable for such fines or penalties and/or liable to third parties.

Certain hotel properties we own or may own in the future may contain, or may have contained, asbestos-containing building materials ("ACBMs"). Environmental laws require that ACBMs be properly managed and maintained and may impose fines and penalties on building owners and operators for failure to comply with these requirements. Also,

certain properties may be adjacent or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Third parties may be permitted by law to seek recovery from owners or operators for property

damage and/or personal injury associated with exposure to contaminants, including, but not limited to, petroleum products, hazardous or toxic substances and asbestos fibers.

We have obtained Phase I environmental site assessments ("ESAs") on our hotel properties and expect to do so for hotel properties we acquire in the future. ESAs are intended to evaluate information regarding the environmental condition of the surveyed property and surrounding properties based generally on visual observations, interviews and certain publicly available databases. These assessments do not typically take into account all environmental issues including, but not limited to, testing of soil or groundwater or the possible presence of asbestos, lead-based paint, radon, wetlands or mold. As a result, these assessments may fail to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may arise after the ESAs and future laws, ordinances or regulations may impose material additional environmental liability. We cannot assure you that costs of future environmental compliance will not affect our ability to make distributions to our shareholders or that such costs or other remedial measures will not be material to us.

The presence of hazardous substances on a property may limit our ability to sell the property on favorable terms or at all, and we may incur substantial remediation costs. The discovery of material environmental liabilities at our properties could subject us to unanticipated significant costs, which could significantly reduce our profitability and the cash available for distribution to our shareholders.

Risks Related to Our Organization and Structure

Provisions of our declaration of trust may limit the ability of a third party to acquire control of us by authorizing our board of trustees to authorize issuances of additional securities.

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.

Provisions of Maryland law may limit the ability of a third party to acquire control of us by requiring our board of trustees or shareholders to approve proposals to acquire our company or effect a change of control.

Certain provisions of the Maryland General Corporation Law (the "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 percent 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. By resolution of our board of trustees, we have opted out of the business combination provisions of the MGCL and provided that any business combination between us and any other person is exempt from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of trustees (including a majority of trustees who are not affiliates or associates of such persons). Pursuant to a provision in our bylaws, we have opted out of the control share provisions of the MGCL. However, our board of trustees may by resolution elect

to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Additionally, Title 8, Subtitle 3 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, such as a classified board. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price. In October 2015, we opted out of the classified board provision of Title 8, Subtitle 3 of the MGCL and prohibited ourselves from opting back into that provision without prior approval of our shareholders.

The ownership limitations in our declaration of trust may restrict or prevent shareholders from engaging in certain transfers of our common shares.

In order for us to maintain our qualification as a REIT for U.S. federal income tax purposes, no more than 50 percent in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the U.S. federal income tax laws to include various kinds of entities) during the last half of any taxable year. To assist us in maintaining our qualification as a REIT, our declaration of trust contains a share ownership limit. Generally, any of our shares owned by affiliated owners will be added together for purposes of the share ownership limit.

If anyone transfers our shares in a way that would violate the share ownership limit or prevent us from qualifying as a REIT under the U.S. 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 share ownership limit or we will consider the transfer to be null and void from the outset, and the intended transferee of those shares will be deemed never to have owned the shares. Anyone who acquires our shares in violation of the share 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.

In addition, these ownership limitations may prevent an acquisition of control of us by a third party without our board of trustees' approval, even if our shareholders believe the change of control is in their interest.

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

Under Maryland law, generally, a trustee's actions will be upheld if he or she performs 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. 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 declaration of trust authorizes 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 have entered into indemnification agreements with our officers and trustees and we may be obligated to fund 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.

Our declaration of trust contains provisions that make removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management.

Our declaration of trust provides that a trustee may be removed only for cause (as defined in our declaration of trust) and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of trustees. Our declaration of trust also provides that vacancies on our board of trustees may be filled only by a majority of the remaining trustees in office, even if less than a quorum. These requirements prevent shareholders from removing trustees except for cause and with a substantial affirmative vote and from replacing trustees with their own nominees and may prevent a change in control of our company that is in the best interests of our shareholders.

The ability of our board of trustees to change our major policies without the consent of shareholders may not be in 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. Our board of trustees 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.

Further issuances of equity securities may be dilutive to current shareholders.

We expect to issue additional common shares or preferred shares to raise the capital necessary to finance hotel acquisitions or improvements, refinance debt or pay portions of future dividends. In addition, we may issue units in our Operating Partnership, which are redeemable on a one-for-one basis for our common shares, to acquire hotels. Such issuances could result in dilution of our shareholders' equity interests.

Future offerings of debt securities or preferred shares, which would be senior to our common shares upon liquidation and for the purpose of distributions, may cause the market price of our common shares to decline.

We have issued six series of preferred shares, of which we have repurchased two and four remain outstanding, and two series of senior unsecured notes. In the future, we may increase our capital resources by making additional offerings of debt or equity securities, which may include senior or subordinated notes, series of preferred shares and common shares. We will be able to issue additional common shares or preferred shares without shareholder approval, unless shareholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings could significantly dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Holders of our common shares are not entitled to preemptive rights or other protections against dilution. Preferred shares and debt, if issued, have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make a distribution to the holders of our common shares. Because our decision to issue securities 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. Thus, our shareholders bear the risk of our future securities issuances reducing the market price of our common shares and diluting their interest.

Holders of our outstanding preferred shares have dividend, liquidation and other rights that are senior to the rights of the holders of our common shares.

Our board of trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2018, 5,000,000 shares of our 6.50% Series C Cumulative Redeemable Preferred Shares (the "Series C Preferred Shares"), 5,000,000 shares of our 6.375% Series D Cumulative Redeemable Preferred Shares (the "Series D Preferred Shares") 4,400,000 shares of our 6.375% Series E Cumulative Redeemable Preferred Shares (the "Series E Preferred Shares") and 6,000,000 shares of our 6.3% Series F Cumulative Redeemable Preferred Shares (the "Series F Preferred Shares") were issued and outstanding. The aggregate liquidation preference with respect to the outstanding preferred shares is approximately \$510.0 million, and aggregate annual dividends on our outstanding preferred shares are approximately \$32.6 million. Holders of any of these preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of these preferred shares are entitled to receive a liquidation preference of \$25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of these preferred shares have the right to elect two additional trustees to our board of trustees whenever dividends on the preferred shares are in arrears for six or more quarterly dividends, whether or not consecutive.

The change of control conversion and redemption features of the Series C Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares and the Series F Preferred Shares may make it more difficult for a party to take over our company or discourage a party from taking over our company.

Upon the occurrence of a change of control (as defined in our declaration of trust) as the result of which our common shares and the common securities of the acquiring or surviving entity (or American Depositary Receipts representing

such securities) are not listed on the New York Stock Exchange (the “NYSE”), the NYSE American LLC or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or NASDAQ, holders of Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares or Series F Preferred Shares will have the right (unless, as provided in our declaration of trust, we have provided or provide notice of our election to redeem the applicable series) to convert some or all of their preferred shares into our common shares (or equivalent value of alternative consideration), and under these circumstances we will also have a special optional redemption right to redeem such shares.

Upon such a conversion, holders of Series C Preferred Shares will be limited to a maximum number of our common shares equal to 2.0325 multiplied by the number of Series C Preferred Shares converted, holders of Series D Preferred Shares will be limited to a maximum number of our common shares equal to 1.9794 multiplied by the number of Series D Preferred Shares converted, holders of Series E Preferred Shares will be limited to a maximum number of our common shares equal to 1.9372 multiplied by the number of Series E Preferred Shares converted and holders of Series F Preferred Shares will be limited to a maximum number of our common shares equal to 2.0649 multiplied by the number of Series F Preferred Shares converted. In addition, those features of the Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares and Series F Preferred Shares 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 of control of our company under circumstances that otherwise could provide the holders of our common shares, Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares or Series F Preferred Shares with the opportunity to realize a premium over the then-current market price or that shareholders may otherwise believe is in their best interests.

We have entered into an agreement with each of our executive officers that requires us to make payments in the event the officer's employment is terminated by us without cause, by the officer for good reason or under certain circumstances following a change of control of our company.

The agreements that we have entered into with our executive officers provide benefits under certain circumstances that could make it more difficult or expensive for us to terminate these officers and may prevent or deter a change of control of our company that would otherwise be in the interest of 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 shareholders could lose confidence in our financial results, which could harm our business and the 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 own opinion on our internal controls over financial reporting. We cannot be certain that we will be successful in maintaining adequate internal controls over our financial reporting and financial processes. Furthermore, as we grow our business, 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. Additionally, 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.

U.S. Federal Income Tax Risk Factors

Our failure to maintain our qualification as a REIT would result in higher taxes and reduced cash available for distribution to our shareholders.

We have elected to be taxed as a REIT for U.S. 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 maintain our qualification as a REIT. If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax for taxable 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. 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. If, for any reason, we ceased 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 shares.

In addition, if we fail to maintain our qualification as a REIT, we will no longer be required to make distributions to shareholders, and all distributions to shareholders will be subject to tax as dividend income to the extent of our current and accumulated earnings and profits. As a result of all these factors, our failure to maintain our qualification as a REIT could

impair our ability to execute our business and growth strategies, as well as make it more difficult for us to raise capital and service our indebtedness.

We could face adverse tax consequences if LaSalle failed to qualify as a REIT prior to the merger.

In connection with the closing of the merger, we received an opinion of counsel to the effect that LaSalle qualified as a REIT for U.S. federal income tax purposes through the time of the merger. However, we did not request a ruling from the IRS that LaSalle qualified as a REIT. Notwithstanding the opinion of counsel, if the IRS successfully challenged LaSalle's REIT status prior to the merger, we could face adverse tax consequences, including:

- succeeding to LaSalle's liability for U.S. federal income taxes at regular corporate rates for the periods in which LaSalle failed to qualify as a REIT (without regard to the deduction for dividends paid for such periods);
- succeeding to any built-in gain on LaSalle's assets, for which we could be liable for U.S. federal income tax at regular corporate rates, if we were to recognize such gain in the five-year period following the merger; and
- succeeding to LaSalle's earnings and profits accumulated during the periods in which LaSalle failed to qualify as a REIT, which we would be required to distribute to our shareholders in order to satisfy the REIT distribution requirements and avoid the imposition of any excise tax.

As a result, we would have less cash available for operations and distributions to our shareholders, which could require us to raise capital on unfavorable terms or pay deficiency dividends.

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

To maintain our qualification as a REIT for U.S. 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. 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 percent of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10 percent of the outstanding voting securities of any one issuer or more than 10 percent of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5 percent of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 20 percent of the value of our total assets can be represented by the securities of one or more TRSs and no more than 25 percent of our assets can be represented by debt of "publicly offered REITs" (i.e., REITs that are required to file annual and periodic reports with the SEC under the Exchange Act) that is not secured by real property or interests in real property. The Code provides that temporary investments of new capital in stock or debt instruments for the one-year period beginning on the date on which we receive the new capital will be considered qualified real estate assets for purposes of the above requirements. 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.

To maintain our qualification as a REIT and avoid corporate income tax and excise tax, we must distribute annually a certain percentage of our REIT taxable income, which could require us to raise capital on terms or sell properties at prices or at times that are unfavorable.

To maintain our qualification as a REIT, we must distribute to our shareholders each calendar year at least 90 percent of our REIT taxable income (including certain items of non-cash income), determined without regard to the deduction for dividends paid and excluding any net capital gain. To the extent that we satisfy the 90 percent distribution requirement, but distribute less than 100 percent of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4 percent nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85 percent of our REIT ordinary income for that year;
- 95 percent of our REIT capital gain net income for that year; and

any undistributed REIT taxable income from prior years.

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We have distributed, and we intend to continue to distribute, our REIT taxable income to our shareholders in a manner intended to satisfy the 90 percent distribution requirement and to avoid both corporate income tax and the 4 percent nondeductible excise tax. However, there is no requirement that TRSs distribute their after tax net income to their parent REIT or their shareholders.

Our REIT taxable income may substantially exceed our net income as determined based on U.S. generally accepted accounting principles, or U.S. GAAP, because, for example, realized capital losses will be deducted in determining our U.S. GAAP net income, but may not be deductible in computing our REIT taxable income. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow or raise capital on terms or sell properties at prices or at times that we regard as unfavorable in order to distribute enough of our REIT taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4 percent nondeductible excise tax in a particular year.

We may pay taxable dividends partly in shares and partly in cash, in which case shareholders may sell our shares to pay tax on such dividends, placing downward pressure on the market price of our shares.

We may pay taxable dividends partly in shares and partly in cash. Under IRS Revenue Procedure 2017-45, as a publicly offered REIT, as long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the share distribution as a dividend (to the extent applicable rules treat such distribution as being made out of our earnings and profits). Although we have no current intention of paying dividends in the form of our own shares, if in the future we choose to pay dividends in our own shares, our shareholders may be required to pay tax in excess of the cash that they receive. If a U.S. shareholder sells the 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 U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares. If we pay dividends in our own shares and a significant number of our shareholders sell our shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our shares.

Our TRS lessees increase our overall tax liability.

Our TRS lessees are subject to U.S. federal and state income tax on their taxable income, which consists of the revenues from the hotel properties leased by our TRS lessees, net of the operating expenses (including management fees) for such hotel properties and rent payments to us. In certain circumstances, the ability of our TRS lessees to deduct interest expense may 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 lessees is available for distribution to us.

Our ownership of our TRSs is limited and our transactions with our TRSs will cause us to be subject to a 100 percent 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 percent 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 hotel operations pursuant to hotel management contracts. 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 percent of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20 percent of the value of a REIT's 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 percent excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be 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 TRSs is and will continue to be less than 20 percent of the value of our total assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid

incurring the 100 percent excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS ownership limitation discussed above or to avoid application of the 100 percent excise tax discussed above.

If the leases of our hotel properties to our TRS lessees are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our shareholders.

To maintain our qualification as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as “rents from real property.” Rents paid to our Operating Partnership by our TRS lessees pursuant to the lease of our hotel properties constitute substantially all of our gross income. In order for such rent to qualify as “rents from real property” for purposes of the gross income tests, the leases must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT.

If our Operating Partnership failed to qualify as a partnership for U.S. federal income tax purposes, we would cease to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our shareholders and suffer other adverse consequences.

We believe that our Operating Partnership qualifies to be treated as a partnership for U.S. federal income tax purposes. As a partnership, our Operating Partnership generally is not subject to U.S. federal income tax on its income. Instead, each of its partners, including us, is required to pay tax on its allocable share of our Operating Partnership's income. No assurance can be provided, however, that the IRS will not challenge its status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership as a corporation for tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. Also, the failure of our Operating Partnership to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

If our TRSs fail to qualify as TRSs for U.S. federal income tax purposes or 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. So long as any TRS lessee qualifies as a TRS, it will not be treated as a “related party tenant” with respect to our properties that are managed by an independent hotel management company that qualifies as an “eligible independent contractor.” We believe that our TRSs qualify to be treated as TRSs for U.S. federal income tax purposes, but there can be no assurance that the IRS will not challenge the status of a TRS for U.S. federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of our TRS lessee from treatment as a TRS, it is possible that we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to meet either the asset or gross income tests, we would likely lose our REIT qualification for U.S. federal income tax purposes.

Additionally, if our hotel managers do not qualify as “eligible independent contractors,” we will fail to qualify as a REIT. Each of the hotel management companies that enter into a management contract with our TRS lessees must qualify as an “eligible independent contractor” under the REIT rules in order for the rent paid to us by our TRS lessees to be qualifying income for purposes of the REIT gross income tests. Among other requirements, in order to qualify as an eligible independent contractor a manager must not own, directly or through its shareholders, more than 35 percent of our outstanding shares, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35 percent thresholds are complex. Although we intend to monitor ownership of our shares by our hotel managers and their owners, there can be no assurance that these ownership levels will not be exceeded. 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 after December 31, 2017 and 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.

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

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute “gross income” for purposes of the 75 percent or 95 percent gross income tests. 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 may need 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 TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

If our subsidiary REITs failed to qualify as REITs, we could be subject to higher taxes and could fail to remain qualified as REITs.

Our Operating Partnership owns 100% of the common shares of each of three subsidiary REITs that have elected to be taxed as REITs under the U.S. federal income tax laws. Our subsidiary REITs are subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If any of our subsidiary REITs were to fail to qualify as a REIT, then (i) such subsidiary REITs would become subject to U.S. federal income tax and (ii) our ownership of shares in such subsidiary REITs would cease to be a qualifying asset for purposes of the asset tests applicable to REITs. If our subsidiary REITs were to fail to qualify as a REIT, it is possible that we would fail certain of the asset tests applicable to REITs, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. We have made “protective” TRS elections with respect to each of our subsidiary REITs and may implement other protective arrangements intended to avoid such an outcome if our subsidiary REITs were not to qualify as a REIT, but there can be no assurance that such “protective” elections and other arrangements will be effective to avoid the resulting adverse consequences to us. Moreover, even if the “protective” TRS elections were to be effective in the event of the failure of our subsidiary REITs to maintain their qualification as a REIT, such subsidiary REITs would be subject to federal income tax and we cannot assure you that we would not fail to satisfy the requirement that not more than 20 percent of the value of our total assets may be represented by the securities of one or more TRSs. In this event, we would fail to qualify as a REIT unless we or such subsidiary REITs could avail ourselves or themselves of certain relief provisions.

The ability of our board of trustees to revoke our REIT qualification without shareholder approval may subject us to U.S. federal and state income tax and reduce distributions 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 be a REIT, we would become subject to U.S. 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 and on the market price of our common shares.

The share ownership restrictions of the Code for REITs and the 9.8 percent share ownership limit in our declaration of trust may inhibit market activity in our shares and restrict our business combination opportunities.

In order to qualify as a REIT for each taxable year, five or fewer individuals, as defined in the Code, may not own, actually or constructively, more than 50 percent in value of our issued and outstanding shares at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity actually or constructively owns our shares under this requirement. Additionally, at least 100 persons must beneficially own our shares during at least 335 days of each taxable year. To help insure that we meet these tests, our declaration of trust restricts the acquisition and ownership of our shares.

Our declaration of trust, with certain exceptions, authorizes our board of trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, our declaration of trust prohibits any person from beneficially or constructively owning more than 9.8 percent (measured by value or number of shares, whichever is more restrictive) of any class or series of our shares. Our board of trustees may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8 percent of the

value of our outstanding shares would result in the termination REIT status. These restrictions on transferability and ownership will not apply, however, if our board of trustees determines that it is no longer in our best interest to continue to qualify as a REIT.

These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our shares or otherwise be in the best interest of the shareholders.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business.

Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce the tax benefits of our REIT structure compared to non-REIT corporations, reduce our operating flexibility and reduce the market price of our shares.

At any time, the U.S. federal income tax laws governing REITs or the administrative and judicial interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative and judicial interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative or judicial 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, U.S. federal income tax law, regulation or administrative and judicial interpretation.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease our headquarters located at 7315 Wisconsin Avenue, 1100 West, Bethesda, Maryland 20814, and 7550 Wisconsin Avenue, 10th Floor, Bethesda, Maryland 20814.

At December 31, 2018, we owned 63 hotels with a total of 15,253 guest rooms.

The following table sets forth certain information about the hotels we wholly owned as of December 31, 2018, all of which are consolidated in our financial statements.

Property	Date Acquired	Location	Number of Guest Rooms
1. Sir Francis Drake	June 22, 2010	San Francisco, CA	416
2. InterContinental Buckhead Atlanta	July 1, 2010	Buckhead, GA	422
3. Hotel Monaco Washington DC	(1) September 9, 2010	Washington, D.C.	184
4. Skamania Lodge	November 3, 2010	Stevenson, WA	258
5. Le Meridien Delfina Santa Monica	November 19, 2010	Santa Monica, CA	310
6. Sofitel Philadelphia at Rittenhouse Square	December 3, 2010	Philadelphia, PA	306
7. Argonaut Hotel	(1) February 16, 2011	San Francisco, CA	252
8. The Westin San Diego Gaslamp Quarter	(2) April 6, 2011	San Diego, CA	450
9. Hotel Monaco Seattle	April 7, 2011	Seattle, WA	189
10. Mondrian Los Angeles	May 3, 2011	West Hollywood, CA	236
11. W Boston	June 8, 2011	Boston, MA	238

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12. Hotel Zetta San Francisco	April 4, 2012	San Francisco, CA	116
13. Hotel Vintage Seattle	July 9, 2012	Seattle, WA	125
14. Hotel Vintage Portland	July 9, 2012	Portland, OR	117
15. W Los Angeles - West Beverly Hills	August 23, 2012	Los Angeles, CA	297

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16. Hotel Zelos San Francisco	(3)	October 25, 2012	San Francisco, CA	202
17. Embassy Suites San Diego Bay - Downtown		January 29, 2013	San Diego, CA	341
18. Hotel Modera		August 28, 2013	Portland, OR	174
19. Hotel Zephyr Fisherman's Wharf	(1)	December 9, 2013	San Francisco, CA	361
20. Hotel Zeppelin San Francisco	(3)	May 22, 2014	San Francisco, CA	196
21. The Nines, a Luxury Collection Hotel, Portland		July 17, 2014	Portland, OR	331
22. Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel		November 12, 2014	Miami, FL	157
23. Hotel Palomar Los Angeles Beverly Hills	(1)	November 20, 2014	Los Angeles, CA	264
24. Union Station Hotel Nashville, Autograph Collection	(1)	December 10, 2014	Nashville, TN	125
25. Revere Hotel Boston Common		December 18, 2014	Boston, MA	356
26. LaPlaya Beach Resort and Club		May 21, 2015	Naples, FL	189
27. Hotel Zoe Fisherman's Wharf		June 11, 2015	San Francisco, CA	221
28. Villa Florence San Francisco on Union Square		November 30, 2018	San Francisco, CA	189
29. Hotel Vitale	(1)	November 30, 2018	San Francisco, CA	200
30. The Marker San Francisco		November 30, 2018	San Francisco, CA	208
31. Hotel Spero		November 30, 2018	San Francisco, CA	236
32. Chaminade Resort & Spa		November 30, 2018	Santa Cruz, CA	156
33. Harbor Court Hotel San Francisco	(1)	November 30, 2018	San Francisco, CA	131
34. Viceroy Santa Monica Hotel	(1)	November 30, 2018	Santa Monica, CA	162
35. Le Parc Suite Hotel		November 30, 2018	West Hollywood, CA	154
36. Hotel Amarano Burbank		November 30, 2018	Burbank, CA	132
37. Montrose West Hollywood		November 30, 2018	West Hollywood, CA	133
38. Chamberlain West Hollywood Hotel		November 30, 2018	West Hollywood, CA	115
39. Grafton on Sunset		November 30, 2018	West Hollywood, CA	108
40. The Westin Copley Place, Boston	(1)	November 30, 2018	Boston, MA	803
41. The Liberty, A Luxury Collection Hotel, Boston	(1)	November 30, 2018	Boston, MA	298
42. Hyatt Regency Boston Harbor	(1)	November 30, 2018	Boston, MA	270
43. Onyx Hotel		November 30, 2018	Boston, MA	112
44. Hotel Palomar Washington DC		November 30, 2018	Washington, DC	335
45. Sofitel Washington DC Lafayette Square		November 30, 2018	Washington, DC	237
46. The Liaison Capitol Hill		November 30, 2018	Washington, DC	343
47. George Hotel		November 30, 2018	Washington, DC	139
48. Mason & Rook Hotel		November 30, 2018	Washington, DC	178
49. Donovan Hotel		November 30, 2018	Washington, DC	193
50. Rouge Hotel		November 30, 2018	Washington, DC	137
51. Topaz Hotel		November 30, 2018	Washington, DC	99
52. Hotel Madera		November 30, 2018	Washington, DC	82
53. Paradise Point Resort & Spa	(1)	November 30, 2018	San Diego, CA	462
54. Hilton San Diego Gaslamp Quarter		November 30, 2018	San Diego, CA	286
55. Solamar Hotel	(1)	November 30, 2018	San Diego, CA	235
56. L'Auberge Del Mar		November 30, 2018	Del Mar, CA	121
57. Hilton San Diego Resort & Spa	(1)	November 30, 2018	San Diego, CA	357
58. The Heathman Hotel		November 30, 2018	Portland, OR	151
59. Southernmost Beach Resort	(4)	November 30, 2018	Key West, FL	262
60. The Marker Key West		November 30, 2018	Key West, FL	96
61. The Roger New York	(1)	November 30, 2018	New York, NY	194

62. Hotel Chicago Downtown, Autograph Collection	November 30, 2018	Chicago, IL	354
63. The Westin Michigan Avenue Chicago	November 30, 2018	Chicago, IL	752
Total number of guest rooms			15,253

- (1) This property is subject to a long-term ground or air rights lease.
- (2) This property is subject to mortgage debt at December 31, 2018.
- (3) This property is subject to a long-term hotel lease.
- (4) This property is subject to a ground lease on a restaurant facility.

Hotel Managers and Hotel Management Agreements

We are a party to hotel management agreements with Access Hotels and Resorts, AccorHotels, Benchmark Hotels and Resorts, CoralTree Hospitality Group, Davidson Hotels and Resorts, Destination Hotels and Resorts, Evolution, HEI Hotels and Resorts, Highgate, Hyatt, InterContinental Hotels Group, JRK Property Holdings, Kimpton Hotels and Restaurants, Marriott International, Noble House Hotels & Resorts, OLS Hotels and Resorts, Provenance Hotels, Pyramid Hotel Group, Sage Hospitality, sbe Hotel Group and Viceroy Hotel Group.

Our management agreements generally have the terms described below:

Base Management Fees. Our management agreements generally provide for the payment of base management fees between 1% and 4% of the applicable hotel's revenues or a fixed amount, as determined in the agreements.

Incentive Management and Other Fees. Some of our management agreements provide for the payment of incentive management fees. Generally, incentive management fees are 10% to 20% of net operating income above a specified return on project costs or as a percentage of net operating income above various net operating income thresholds. Some of our management agreements provide for an incentive fee of the lesser of 1% of revenues or the amount by which net operating income exceeds a threshold. Some of our management agreements have a maximum incentive fee of 2.5% of revenue.

Terms. The terms of our management agreements range from 1 year to 22 years not including renewals, and 1 year to 52 years including renewals.

Ability to Terminate. Many of our management agreements are terminable at will by us upon payment of a termination fee and some are terminable upon sale of the property. Most of the agreements also provide us the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to eight times the annual base management and incentive management fees, depending on the agreement and the reason for termination.

Operational Services. Each manager has exclusive authority to supervise, direct and control the day-to-day hotel operation and management including establishing all room rates, processing reservations, procuring inventories, supplies and services, hiring and firing employees and independent contractors and preparing public relations, publicity and marketing plans for the hotel.

Executive Supervision and Management Services. Each manager supervises all managerial and other hotel employees, reviews hotel operation and maintenance, prepares reports, budgets and projections, and provides other administrative and accounting support services for the hotel. Under certain management agreements, we have approval rights over certain key management personnel at the hotel.

Chain Services. Our management agreements with major hotel franchisors require the managers to furnish chain services that are generally made available to other hotels managed by such operators. Such services may, for example, include: the development and operation of computer systems and reservation services; management and administrative services; marketing and sales services; human resources training services; and additional services as may from time to time be more efficiently performed on a national, regional or group level.

Working Capital. Our management agreements typically require us to maintain working capital for a hotel and to fund the cost of supplies such as linens and other similar items. We are also responsible for providing funds to meet the cash

needs for the hotel operations if at any time the funds available from the hotel operations are insufficient to meet the financial requirements of the hotel.

Furniture, Fixtures and Equipment Replacements. We are required to invest in the hotels and to provide all the necessary furniture, fixtures and equipment for the operation of the hotels (including funding any required furniture, fixture and equipment replacements). Our management agreements generally provide that once a year the managers will prepare a list of furniture, fixtures and equipment to be acquired and certain routine capital repairs to be performed in the following year and an estimate of funds that are necessary for our review and approval. To fund the furniture, fixtures and equipment replacements, a specified percentage of the gross revenues of each hotel (typically 4.0%) is either deposited by the manager in an escrow account or held by us, as owner.

Building Alterations, Improvements and Renewals. Our management agreements generally require the managers to prepare an annual estimate of the expenditures necessary for major capital repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of the hotels. In addition to the foregoing, the management agreements generally provide that the managers may propose such changes, alterations and improvements to the hotels as are required by reason of laws or regulations or, in the manager's reasonable judgment, to keep the hotels in a safe, competitive and efficient operating condition.

Sale of a Hotel. Certain of our management agreements limit our ability to sell, lease or otherwise transfer a hotel, unless the transferee assumes the related management agreement and meets other specified conditions.

Franchise Agreements

We have franchise agreements for the following hotels: the Le Meridien Delfina Santa Monica; the Embassy Suites San Diego Bay - Downtown; The Nines, a Luxury Collection Hotel, Portland; Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel; Union Station Hotel Nashville, Autograph Collection; The Liberty, A Luxury Collection Hotel, Boston; Hilton San Diego Gaslamp Quarter; Hilton San Diego Resort & Spa and Hotel Chicago Downtown, Autograph Collection. Pursuant to these franchise agreements, we pay franchise fees based on a percentage of gross room revenues, as well as certain other fees for marketing and reservations services. Franchise fees for room revenues are approximately two to five percent of gross room revenues. The franchise agreements for the respective hotels expire as follows:

Property	Expiration Date
Le Meridien Delfina Santa Monica	September 2033
Embassy Suites San Diego Bay - Downtown	January 2028
The Nines, a Luxury Collection Hotel, Portland	October 2033
Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel	September 2036
Union Station Hotel Nashville, Autograph Collection	January 2032
The Liberty, A Luxury Collection Hotel, Boston	January 2036
Hilton San Diego Gaslamp Quarter	May 2020
Hilton San Diego Resort & Spa	December 2025
Hotel Chicago Downtown, Autograph Collection	February 2034

Item 3. Legal Proceedings.

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

condition.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Market Information

Our common shares began trading on the NYSE on December 9, 2009 under the symbol "PEB".

Shareholder Information

On February 22, 2019, there were 55 holders of record of our common shares. However, because the vast majority of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

The following graph provides a comparison of the cumulative total return on our common shares from December 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 Index") and the FTSE National Association of Real Estate Investment Trusts Equity REITs Index (the "FTSE NAREIT Equity Index") for the same period. 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 and (iii) the FTSE NAREIT Equity Index. The total return values do not include any dividends declared, but not paid, during the period.

The actual returns shown on the graph above are as follows:

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Name	Value of Initial Investment at December 31, 2013	Value of Investment at December 31, 2014	Value of Investment at December 31, 2015	Value of Investment at December 31, 2016	Value of Investment at December 31, 2017	Value of Investment at December 31, 2018
Pebblebrook Hotel Trust	\$ 100.00	\$ 151.95	\$ 96.48	\$ 108.31	\$ 141.58	\$ 112.55
Russell 2000 Index	\$ 100.00	\$ 104.90	\$ 100.27	\$ 121.60	\$ 139.39	\$ 124.02
FTSE NAREIT Equity Index	\$ 100.00	\$ 128.03	\$ 131.65	\$ 143.32	\$ 155.75	\$ 149.42

Distributions

Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary income. Distributions in excess of current and accumulated earnings and profits generally will be treated as a nontaxable reduction of the shareholder's basis in such shareholder's shares, to the extent thereof, and thereafter as taxable capital gain. Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of increasing the amount of gain, or reducing the amount of loss, recognized upon the sale of the shareholder's shares.

The declaration of distributions by our company is in the sole discretion of our board of trustees and depends on our actual cash flow, financial condition, capital expenditure requirements for our hotels, the annual distributions requirements under the REIT provisions of the Code and such other factors as our board of trustees deems relevant. For income tax purposes, distributions paid per share were characterized as follows:

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Common Shares:						
Ordinary non-qualified income	\$ 1.204077	77.57 %	\$ 1.361195	41 %	\$ 1.379495	14 %
Qualified dividend	0.3482	22.43 %	0.0256	1.79 %	0.0704	4.86 %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	0.0399	2.80 %	—	— %
Total	\$ 1.5522	100.00 %	\$ 1.4266	100.00 %	\$ 1.4498	100.00 %

Series A Preferred Shares: ⁽¹⁾

Ordinary non-qualified income	\$—	— %	\$—	— %	\$0.291495	14 %
Qualified dividend	—	— %	—	— %	0.0149	4.86 %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	\$—	— %	\$—	— %	\$0.3063	100.00 %

Series B Preferred Shares: ⁽²⁾

Ordinary non-qualified income	\$—	— %	\$—	— %	\$1.310995	14 %
Qualified dividend	—	— %	—	— %	0.0669	4.86 %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	\$—	— %	\$—	— %	\$1.3778	100.00 %

Series C Preferred Shares:

Ordinary non-qualified income	\$ 1.260577	77.57 %	\$ 1.196998	20 %	\$ 1.546195	14 %
Qualified dividend	0.3645	22.43 %	0.0219	1.80 %	0.0789	4.86 %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	\$ 1.6250	100.00 %	\$ 1.2188	100.00 %	\$ 1.6250	100.00 %

Series D Preferred Shares:

Ordinary non-qualified income	\$ 1.2363	77.57	%	\$ 1.1739	98.21	%	\$ 0.9099	95.15	%
Qualified dividend	0.3575	22.43	%	0.0214	1.79	%	0.0464	4.85	%
Capital gain	—	—	%	—	—	%	—	—	%
Return of capital	—	—	%	—	—	%	—	—	%
Total	\$ 1.5938	100.00	%	\$ 1.1953	100.00	%	\$ 0.9563	100.00	%

Series E Preferred Shares: ⁽³⁾

Ordinary non-qualified income	\$—	—	%	\$—	—	%	\$—	—	%
Qualified dividend	—	—	%	—	—	%	—	—	%
Capital gain	—	—	%	—	—	%	—	—	%
Return of capital	—	—	%	—	—	%	—	—	%
Total	\$—	—	%	\$—	—	%	\$—	—	%

Series F Preferred Shares: ⁽³⁾

Ordinary non-qualified income	—	—	%	\$—	—	%	\$—	—	%
Qualified dividend	—	—	%	—	—	%	—	—	%
Capital gain	—	—	%	—	—	%	—	—	%
Return of capital	—	—	%	—	—	%	—	—	%
Total	\$—	—	%	\$—	—	%	\$—	—	%

⁽¹⁾ Redeemed in full in March 2016.

⁽²⁾ Redeemed in full in September 2016.

⁽³⁾ Issued upon completion of our merger with LaSalle on November 30, 2018.

Of the common distribution declared on December 15, 2015 and paid on January 15, 2016, \$0.2164 was treated as a 2016 distribution for tax purposes. The preferred share distributions declared on December 15, 2015 and paid on January 15, 2016, were treated as 2015 distributions for tax purposes.

Of the common distribution declared on December 15, 2016 and paid on January 17, 2017, \$0.2866 was treated as a 2017 distribution for tax purposes. The preferred share distributions declared on December 15, 2016 and paid on January 17, 2017, were treated as 2016 distributions for tax purposes.

Of the common distribution declared on December 15, 2017 and paid on January 12, 2018, \$0.3800 was treated as a 2018 distribution for tax purposes. The preferred share distributions declared on December 15, 2017 and paid on January 12, 2018, were treated as 2018 distributions for tax purposes.

Of the common distributions declared on November 19, 2018 and December 14, 2018 and both paid on January 15, 2019, \$0.3478 was treated as a 2019 distribution for tax purposes. The preferred share distributions declared on December 14, 2018 and paid on January 15, 2019, \$0.4063 of Series C, of \$0.3984 of Series D, \$0.3984 of Series E, and \$0.3938 of Series F were treated as 2019 distributions for tax purposes.

Securities Authorized for Issuance Under Equity Compensation Plan

The following table sets forth information regarding securities authorized for issuance under our equity compensation plan, our 2009 Equity Incentive Plan, as amended and restated, as of December 31, 2018. See Note 9 to the accompanying consolidated financial statements for additional information regarding our 2009 Equity Incentive Plan.

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Plan Category	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	—	—	1,207,886
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,207,886

During the year ended December 31, 2018, certain of our employees chose to have us acquire from such employees an aggregate of 69,687 common shares to pay taxes due upon vesting of restricted common shares granted pursuant to share award agreements. The average price paid by the Company for these shares was \$35.97 per share.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1, 2018 - October 31, 2018	—	\$	—	\$—
November 1, 2018 - November 30, 2018	—	\$	—	\$—
December 1, 2018 - December 31, 2018	—	\$	—	\$—
Total	—	\$	—	\$56,600,000

⁽¹⁾ Amounts in this column represent common shares sold to the Company as payment of tax withholding due upon vesting of equity awards.

⁽²⁾ On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to \$150.0 million of our outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. As of December 31, 2018, \$56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, we announced that our board of trustees authorized a new share repurchase program of up to \$100.0 million of our outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. This \$100.0 million share repurchase program will commence upon the completion of the \$150.0 million share repurchase program.

Item 6. Selected Financial Data.

The following table includes selected historical financial information which has been derived from the audited consolidated financial statements. The following information should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Consolidated Financial Statements and Supplementary Data” and all of the financial statements and notes included elsewhere in this Annual Report on Form 10-K.

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	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except share and per-share data)				
Revenues:					
Room	\$565,107	\$532,288	\$568,867	\$526,573	\$410,600
Food and beverage	199,089	182,737	191,857	190,852	148,114
Other operating	64,482	54,292	55,697	53,439	40,062
Total revenues	828,678	769,317	816,421	770,864	598,776
Expenses:					
Hotel operating expenses:					
Room	143,171	134,068	137,312	124,090	102,709
Food and beverage	136,845	123,213	126,957	128,816	104,843
Other direct and indirect	231,818	210,692	219,655	215,169	166,435
Total hotel operating expenses	511,834	467,973	483,924	468,075	373,987
Depreciation and amortization	108,475	102,290	102,439	95,872	68,324
Real estate taxes, personal property taxes, property insurance and ground rent	54,191	48,500	50,488	46,947	36,878
General and administrative	22,512	23,977	27,912	27,649	26,349
Transaction costs	75,049	71	193	4,686	1,973
Impairment and other losses	1,452	6,003	12,148	—	—
Loss (gain) on sale of hotel properties	2,147	(14,877)	(40,690)	—	—
Gain on insurance settlement	(13,954)	—	—	—	—
Total operating expenses	761,706	633,937	636,414	643,229	507,511
Operating income (loss)	66,972	135,380	180,007	127,635	91,265
Interest income	178	97	1,995	2,511	2,529
Interest expense	(53,923)	(37,299)	(43,615)	(38,774)	(27,065)
Other	1,900	2,265	283	—	—
Equity in earnings (loss) of joint venture	—	—	(64,842)	6,213	10,065
Income (loss) before income taxes	15,127	100,443	73,828	97,585	76,794
Income tax (expense) benefit	(1,742)	(181)	134	(2,590)	(3,251)
Net income (loss)	13,385	100,262	73,962	94,995	73,543
Net income (loss) attributable to non-controlling interests	(8)	374	258	327	677
Net income (loss) attributable to the Company	13,393	99,888	73,704	94,668	72,866
Distributions to preferred shareholders	(17,466)	(16,094)	(19,662)	(25,950)	(25,079)
Issuance costs of redeemed preferred shares	—	—	(7,090)	—	—
Net income (loss) attributable to common shareholders	\$(4,073)	\$83,794	\$46,952	\$68,718	\$47,787
Net income (loss) per share available to common shareholders, basic	\$(0.06)	\$1.20	\$0.65	\$0.95	\$0.72
Net income (loss) per share available to common shareholders, diluted	\$(0.06)	\$1.19	\$0.64	\$0.94	\$0.71
Weighted-average number of common shares, basic	74,286,307	69,591,973	71,901,499	71,715,870	65,646,712
Weighted-average number of common shares, diluted	74,286,307	69,984,837	72,373,242	72,384,289	66,264,118

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	As of December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Balance Sheet Data:					
Investment in hotel properties, net	\$6,534,193	\$2,456,450	\$2,672,654	\$2,673,584	\$2,343,690
Ground lease asset	199,745	29,037	29,627	30,218	30,891
Cash and cash equivalents	83,366	25,410	33,410	26,345	52,883
Total assets	6,978,348	2,590,868	2,809,259	3,058,471	2,767,186
Debt	2,746,898	885,237	996,251	1,105,595	840,689
Total shareholders' equity	3,759,835	1,498,901	1,605,684	1,758,389	1,781,091

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Pebblebrook Hotel Trust is a Maryland real estate investment trust that conducts its operations so as to qualify as a REIT under the Code. Substantially all of the operations are conducted through Pebblebrook Hotel, L.P. (our "Operating Partnership"), a Delaware limited partnership of which Pebblebrook Hotel Trust is the sole general partner. In this report, we use the terms "the Company", "we" or "our", to refer to Pebblebrook Hotel Trust and its subsidiaries, unless the context indicates otherwise.

Overview

Overall in 2018 our portfolio performed at the high end of our guidance. The strongest markets of the year for us include Naples, Florida and Key West, Florida, both of which continue to recover from the negative impact of Hurricane Irma in 2017, and San Francisco, which is expected to be even stronger in 2019 as we see an incredibly favorable convention calendar following the Moscone Convention Center renovation, combined with strong business and leisure hotel demand and limited supply growth. As we look ahead to 2019, despite the softening global economic growth trends, group and transient business travel along with leisure travel demand remain solid. We continue to see supply increases in many of the larger urban markets such as New York, Los Angeles, Miami, Nashville, Portland, Seattle and Chicago.

On November 30, 2018, we completed our merger with LaSalle Hotel Properties. The combined company, headquartered in Bethesda, Maryland, continues to be led by the senior management team leading us immediately prior to the merger. As of December 31, 2018, the Company owned 63 hotels with a total of 15,253 guest rooms. During the year ended December 31, 2018, in addition to our merger with LaSalle, we had the following transactions: The remediation of our 189-room LaPlaya Beach Resort and Club ("LaPlaya") property following damage caused by Hurricane Irma was completed in January 2018 with additional repair work that was completed during the third quarter of 2018. As of December 31, 2018, we reached a final settlement agreement with our insurance carriers totaling \$20.5 million, and we recognized a gain of \$13.1 million for the year ended December 31, 2018.

On December 4, 2018, we sold The Grand Hotel Minneapolis for \$30.0 million.

While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels' operations, including property positioning and repositioning, revenue and expense management, operations analysis, physical design, renovation and capital improvements, guest experience and overall strategic direction. Through these efforts, we seek to improve property efficiencies, lower costs, maximize revenues and enhance property operating margins, which we expect will enhance returns to our shareholders.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and non-financial metrics such as room revenue per available room ("RevPAR"); average daily rate ("ADR"); occupancy

rate ("Occupancy"); funds from operations ("FFO"); earnings before interest, income taxes, depreciation and amortization

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("EBITDA"); and EBITDA for real estate ("EBITDAre"). We evaluate individual hotel and company-wide performance with comparisons to budgets, prior periods and competing properties. ADR, occupancy and RevPAR may be impacted by macroeconomic factors as well as regional and local economies and events. See "Non-GAAP Financial Matters" for further discussion of FFO, EBITDA and EBITDAre.

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our hotels for the years ended December 31, 2018 and 2017.

	For the year ended			
	December 31,			
	2018		2017	
Same-Property Occupancy	82.1	%	82.5	%
Same-Property ADR	\$246.15		\$242.45	
Same-Property RevPAR	\$202.10		\$200.01	

This schedule of hotel results for the year ended December 31 includes information from all of the hotels we owned as of December 31, 2018, except for The Grand Hotel Minneapolis for Q4 in both 2018 and 2017 because it was sold during the fourth quarter of 2018, and LaPlaya Beach Resort & Club for Q3 and Q4 in both 2018 and 2017 because it was closed during the fourth quarter of 2017 due to the impact from Hurricane Irma. Hotels acquired through the merger with LaSalle Hotel Properties are excluded from January through November in both 2018 and 2017, as the Company's ownership of these hotels began in December 2018.

Results of Operations

At December 31, 2018 and 2017, we had 63 and 28 wholly owned properties and leasehold interests, respectively. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition or through the dates of disposition. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the years ended December 31, 2018 and 2017. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are considered and referred to as "comparable properties":

Property	Location	Acquisition/Disposition Date	Non-comparable property for the	
			Years Ended 2018 and 2017	Years Ended 2017 and 2016
Viceroy Miami	Miami, FL	June 1, 2016		X
The Redbury Hollywood	Hollywood, CA	June 1, 2016		X
Manhattan NYC	(1) New York, NY	October 19, 2016		X
Dumont NYC	(2) New York, NY	October 19, 2016	X	X
DoubleTree by Hilton Hotel Bethesda - Washington DC	Bethesda, Maryland	November 2, 2016		X
LaSalle Hotel Properties' portfolio	(3) Various	November 30, 2018	X	
The Grand Hotel Minneapolis	Minneapolis, MN	December 4, 2018	X	

(1) We obtained full ownership of this property as a result of the joint venture redemption transaction on October 19, 2016 and subsequently sold this property on December 20, 2016.

(2) We obtained full ownership of this property as a result of the joint venture redemption transaction on October 19, 2016 and subsequently sold this property on June 20, 2017.

(3) As a result of our merger with LaSalle Hotel Properties, we acquired a portfolio of 36 properties.

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

Revenues — Total hotel revenues increased by \$59.4 million, of which \$12.9 million was contributed by the comparable properties and an increase of \$56.7 million was contributed by the properties acquired through our merger with LaSalle which was offset by a decrease in revenues from the other non-comparable properties. The comparable properties increase was

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primarily due to increases in revenues at the Hotel Zoe Fisherman's Wharf following its renovation in 2017 and the re-opening of LaPlaya after its closure from Hurricane Irma in 2017.

Hotel operating expenses — Total hotel operating expenses increased by \$43.9 million. The comparable properties contributed a net increase of \$9.2 million, primarily due to increases in revenues and expenses at the Hotel Zoe Fisherman's Wharf following its renovation in 2017 and the re-opening of LaPlaya after its closure in 2017 from Hurricane Irma. The acquisitions of hotel properties through our merger with LaSalle contributed to an additional \$40.8 million increase which was offset by a decrease in expenses from the other non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by \$6.2 million primarily due to the additional depreciation expense of \$9.2 million from the acquisition of the LaSalle portfolio which was offset by fully depreciated assets at some of the hotels acquired in 2010.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent increased by \$5.7 million primarily due to additional real estate taxes, personal property taxes, property insurance and ground rent from the acquisition of the LaSalle portfolio.

Corporate general and administrative — Corporate general and administrative expenses decreased by \$1.5 million primarily as a result of the decrease in pre-opening expenses related to less hotel renovations in 2018. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.

Transaction costs — Transaction costs increased by \$75.0 million as a result of the merger with LaSalle. Transaction costs consist of transfer taxes and financial advisory, legal and other professional service fees in connection with the Mergers and integration costs related to professional fees and employee-related costs, including compensation for transition employees.

Impairment and other losses — Impairment and other losses decreased by \$4.6 million. In 2017, we recognized a \$5.0 million loss related to property damage sustained by LaPlaya as a result of Hurricane Irma and an impairment loss of \$1.0 related to the Dumont NYC. In 2018, we incurred \$1.5 million in costs related to the property damage sustained by LaPlaya from Hurricane Irma which were recovered through insurance proceeds.

Loss (gain) on sale of hotel properties — Loss on sale of hotel properties decreased by \$17.0 million. In 2017, we sold the Dumont NYC and the parking garage at the Revere Hotel Boston Common resulting in a total gain of \$14.9 million. In 2018, we incurred a loss of \$2.1 million from the sale of The Grand Hotel Minneapolis.

Interest expense — Interest expense increased by \$16.6 million as a result of additional borrowings of debt to fund the LaSalle merger.

Income tax (expense) benefit — Income tax expense increased by \$1.6 million due to an increase in taxable income of our taxable REIT subsidiaries.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the OP unit holders.

Distributions to preferred shareholders — Distributions to preferred shareholders increased by \$1.4 million as a result of the issuances of the Series E Preferred Shares and Series F Preferred Shares in connection with the merger with LaSalle.

Other comprehensive income (loss) — Other comprehensive income (loss) decreased by \$95.8 million as a result of a decrease in net income and the change in the fair values of our interest rate swaps.

Comparison of the year ended December 31, 2017 to the year ended December 31, 2016

Revenues — Total hotel revenues increased by \$47.1 million, of which \$7.8 million was contributed by the comparable properties and a net decrease of \$39.3 million was contributed by the non-comparable properties. Hotel Monaco Washington DC, Hotel Zeppelin San Francisco and Union Station Hotel Nashville, Autograph Collection had increases in occupancy and ADR resulting from ramping up following their renovations in 2016. Additionally, revenues increased at the Hotel Monaco Washington DC as a result of the presidential inauguration and Women's March during the first quarter of 2017. These gains were offset by declines in revenues at Hotel Palomar Los Angeles Beverly Hills and Hotel Zoe Fisherman's Wharf due to their renovations and the closure of LaPlaya as a result of Hurricane Irma.

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Hotel operating expenses — Total hotel operating expenses decreased by \$16.0 million. The comparable properties contributed a net increase of \$7.3 million, primarily due to increases in revenues and expenses at Hotel Monaco Washington DC and Hotel Zeppelin San Francisco following their renovations. These increases were offset by a reduction in costs from the renovation at the Hotel Zoe Fisherman's Wharf and the closure of LaPlaya as a result of Hurricane Irma. The net increase of \$7.3 million from the comparable properties was offset by a \$23.3 million decrease contributed by the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense decreased by \$0.1 million primarily due to the reduction in depreciation and amortization from properties sold during 2016 offset by additional depreciation from the assets added from the renovations of the Hotel Palomar Los Angeles Beverly Hills, Revere Hotel Boston Common and Union Station Hotel Nashville, Autograph Collection.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent decreased by \$2.0 million primarily due to lower real estate tax assessments of several California properties and a reduction in real estate tax as a result of selling the parking garage at the Revere Hotel Boston Common and the non-comparable properties. This was offset by increased ground rent expense for the Hotel Zephyr Fisherman's Wharf.

Corporate general and administrative — Corporate general and administrative expenses decreased by \$3.9 million primarily as a result of the decrease in share based compensation expense. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.

Impairment loss and other losses — Impairment loss increased by \$6.1 million. In 2016, we recognized a \$12.1 million loss related to the DoubleTree by Hilton Hotel Bethesda -Washington DC and in 2017, we recognized a \$5.0 million loss related to property damage sustained by LaPlaya as a result of Hurricane Irma and an impairment loss of \$1.0 million related to the Dumont NYC.

Loss (Gain) on sale of hotel properties — Gain on sale of hotel properties decreased by \$25.8 million. In 2017, we sold the Dumont NYC and the parking garage at the Revere Hotel Boston Common resulting in a total gain of \$14.9 million. In 2016, we sold a land parcel adjacent to the Revere Hotel Boston Common, Viceroy Miami and The Redbury Hollywood hotels, resulting in a total gain of \$40.7 million.

Interest income — Interest income decreased by \$1.9 million as a result of the repayment of a note receivable by the Manhattan Collection joint venture in October 2016.

Interest expense — Interest expense decreased by \$6.3 million as a result of the repayments of mortgage loans with proceeds from property sales, resulting in lower mortgage debt balances.

Other — Other expense increased by \$2.0 million as a result of income recognized from a forfeited deposit on a hotel property that was contracted to sell.

Equity in earnings (losses) of joint venture — Equity in losses of joint venture decreased from \$(64.8) million in 2016 to zero in 2017 as a result of redeeming our 49% interest in a joint venture which owned six hotel properties in New York, New York (the "Manhattan Collection joint venture") in October 2016.

Income tax (expense) benefit — Income tax expense remained consistent compared to the prior year.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

Distributions to preferred shareholders — Distributions to preferred shareholders decreased \$3.6 million as a result of the redemptions of all of the Series A Preferred Shares in March 2016 and all of the Series B Preferred Shares in September 2016 which were offset, in part, by the issuance of the Series D Preferred Shares in June 2016.

Issuance costs of redeemed preferred shares — These issuance costs relate to the Series A and Series B Preferred Shares which we redeemed in March and September 2016, respectively. These costs are included in the determination of net income attributable to common shareholders.

Other comprehensive income (loss) — Other comprehensive income (loss) increased by \$29.9 million as a result of an increase in net income and the change in the fair values of our interest rate swaps.

Non-GAAP Financial Measures

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Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO, EBITDA and EBITDAre, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance.

We calculate FFO in accordance with standards established by Nareit, formerly known as the National Association of Real Estate Investment Trusts, which defines FFO as net income (calculated in accordance with U.S. GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets (including impairment of real estate related joint ventures), the cumulative effect of changes in accounting principles and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of real estate related depreciation and amortization including our share of the joint venture depreciation and amortization, gains (losses) from sales of real estate and impairments of real estate assets (including impairment of real estate related joint ventures), all of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	For the year ended December 31,		
	2018	2017	2016
Net income (loss)	\$13,385	\$100,262	\$73,962
Adjustments:			
Depreciation and amortization	108,265	102,064	102,206
Depreciation and amortization from joint venture	—	—	7,139
(Gain) loss on sale of hotel properties	2,147	(14,877)	(40,690)
Impairment loss	—	3,849	12,148
Impairment loss from joint venture	—	—	62,622
FFO	\$123,797	\$191,298	\$217,387
Distribution to preferred shareholders	(17,466)	(16,094)	(19,662)
Issuance costs of redeemed preferred shares	—	—	(7,090)
FFO available to common share and unit holders	\$106,331	\$175,204	\$190,635

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The white paper issued by Nareit entitled “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate” defines EBITDAre as net income or loss (computed in accordance with U.S. GAAP), excluding interest expense, income tax, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change of control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate, and after comparable adjustments for our portion of these items related to unconsolidated affiliates. We believe that EBITDA and EBITDAre provide investors useful financial measures to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA and EBITDAre for the years ended December 31, 2018, 2017 and 2016 (in thousands):

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	For the year ended December		
	31,		
	2018	2017	2016
Net income (loss)	\$ 13,385	\$ 100,262	\$ 73,962
Adjustments:			
Interest expense	53,923	37,299	43,615
Interest expense from joint venture	—	—	8,218
Income tax expense (benefit)	1,742	181	(134)
Depreciation and amortization	108,475	102,290	102,439
Depreciation and amortization from joint venture	—	—	7,139
EBITDA	\$ 177,525	\$ 240,032	\$ 235,239
Gain on sale of hotel properties	2,147	(14,877)	(40,690)
Impairment loss	—	3,849	12,148
Impairment loss from joint venture	—	—	62,622
EBITDAre	\$ 179,672	\$ 229,004	\$ 269,319

FFO, EBITDA and EBITDAre do not represent cash generated from operating activities as determined by U.S. GAAP and should not be considered as alternatives to U.S. GAAP net income (loss), as indications of our financial performance, or to U.S. GAAP cash flow from operating activities, as measures of liquidity. In addition, FFO, EBITDA and EBITDAre are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Critical Accounting Policies

We consider these policies critical because they require estimates about matters that are inherently uncertain, involve various assumptions and require significant management judgment, and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Applying different estimates or assumptions may result in materially different amounts reported in our financial statements.

Hotel Properties**Investment in Hotel Properties**

Estimation and judgment is required to allocate the purchase price to elements of our acquired hotel properties. Upon acquisition, we allocate the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangements assumed in connection with the transaction, including terms that are above or below market compared to an estimated market agreement at the acquisition date. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis) and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. Acquisition costs related to business combinations are expensed as incurred.

Hotel renovations and/or replacements of assets that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Furniture, fixtures and equipment under capital leases are carried at the present value of the minimum lease payments. Repair and maintenance costs are expensed as incurred.

Held for Sale

We will classify a hotel as held for sale when a binding agreement to purchase the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, approval of our board of trustees has been obtained, no significant financing contingencies exist, and the sale is expected to close within one year. If these criteria are met and if the fair value less costs to sell is lower than the carrying amount of the hotel, we will record an impairment loss and will cease recording depreciation expense. We will classify the loss, together with the related operating results, as continuing or discontinuing operations on the statements of operations and classify the assets and

related liabilities as held for sale on the balance sheet.

Depreciation and Amortization

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Hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 10 to 40 years for buildings, land improvements and building improvements and one to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract. We are required to make subjective assessments as to the useful lives and classification of our properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets. These assessments may impact our results of operations.

Impairment

We review our investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, when a hotel property experiences a current or projected loss from operations, when it becomes more likely than not that a hotel property will be sold before the end of its useful life, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, we perform an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss recognized. In the evaluation of impairment of our hotel properties, we make many assumptions and estimates including projected cash flows both from operations and eventual disposition, expected useful life and holding period, future required capital expenditures, and fair values, including consideration of capitalization rates, discount rates, and comparable s