HERSHA HOSPITALITY TRUST
Form 10-K
February 27, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________
Commission file number: 001-14765
HERSHA HOSPITALITY TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	251811499
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
44 Hersha Drive, Harrisburg, PA	17102
(Address of Registrant's Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (717) 236-4400
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
6.875% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
6.50% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
6.50% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No
Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.
x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the 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 x	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. ¨ Yes ¨No
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No
The aggregate market value of the outstanding Class A common shares held by nonaffiliates of the registrant, computed by reference to the closing sale price at which Class A common shares were last sold on June 30, 2018, was approximately $811.3 million.
As of February 26, 2019, the number of Class A common shares outstanding was 39,184,952 and there were no Class B common shares outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's last fiscal year pursuant to Regulation 14A, are incorporated herein by reference into Part II, Item 5 and Part III.

HERSHA HOSPITALITY TRUST

Table of Contents

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Unless the context otherwise requires, references in this report to: (1) “we,” “us,” “our,” the “Company” and “Hersha” mean Hersha Hospitality Trust and its consolidated subsidiaries, including Hersha Hospitality Limited Partnership, taken as a whole; (2) “HHLP” and “our operating partnership” mean Hersha Hospitality Limited Partnership; and (3) “common shares” mean our Class A common shares of beneficial interest, $0.01 par value per share.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (“Exchange Act”), as amended, including, without limitation, statements containing the words, “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should and words of similar import. Such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this report including, but not limited to those discussed in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” that could cause actual results to differ. Statements regarding the following subjects are forward-looking by their nature:

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

Forward-looking statements are based on our beliefs, assumptions and expectations, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Readers should not place undue reliance on forward-looking statements.

The following factors could cause actual results to vary from our forward-looking statements:

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

- financial condition of, and our relationships with, our joint venture partners, third-party property managers, franchisors and hospitality joint venture partners;
- the degree and nature of our competition;
- increased interest rates and operating costs;
- ability to complete development and redevelopment projects;
- risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;
- availability of and our ability to retain qualified personnel;

- our ability to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code;
- environmental uncertainties and risks related to natural disasters;
- changes in real estate and zoning laws and increases in real property tax rates; and
- the factors discussed in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2018 under the heading "Risk Factors" and in other reports we file with the U.S. Securities and Exchange Commission ("SEC") from time to time.

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

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

PART I

Item 1. Business

OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the New York Stock Exchange under the symbol “HT.” We invest primarily in institutional grade hotels in major urban gateway markets including New York, Washington, DC, Boston, Philadelphia, South Florida and select markets on the West Coast. Our primary strategy is to continue to own high quality luxury, upscale, upper midscale and extended-stay hotels in metropolitan markets with high barriers to entry and independent boutique hotels in markets with similar characteristics. We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes.

We strive to create value through our ability to source capital and identify high growth acquisition targets. We seek acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel’s ability to attract key demand segments, enhance hotel operations and increase long-term value. To drive sustainable shareholder value, we also seek to recycle capital from stabilized assets in markets with lower forecasted growth rates. Capital from these types of transactions is intended to be and has been redeployed into high growth acquisitions, share buybacks and reduction of debt.

As of December 31, 2018, our portfolio consisted of 38 wholly owned limited and full service properties with a total of 6,104 rooms, 1 hotel owned through a consolidated joint venture with a total of 115 rooms, and interests in 9 limited service properties owned through joint venture investments with a total of 1,425 rooms. These 48 properties, with a total of 7,644 rooms, are located in California, Connecticut, Delaware, District of Columbia, Florida, Maryland, Massachusetts, New York, Pennsylvania, and Washington and operate under leading brands owned by Marriott International, Inc. (“Marriott”), Hilton Worldwide, Inc. (“Hilton”), InterContinental Hotels Group (“IHG”), Hyatt Corporation (“Hyatt”), and Pan Pacific Hotels and Resorts (“Pan Pacific”). In addition, some of our hotels operate as independent hotels.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership (the "Partnership"), for which we serve as the sole general partner. As of December 31, 2018, we owned an approximate 91.3% partnership interest in our operating partnership including all of the general partnership interest.

The majority of our wholly-owned hotels are managed by Hersha Hospitality Management, L.P. (“HHMLP”), a privately held, qualified management company owned by certain of our trustees and executive officers and other unaffiliated third party investors. Other third party qualified management companies manage certain hotels that we own through joint venture interests. We lease our wholly-owned hotels to 44 New England Management Company (“44 New England”), our wholly-owned taxable REIT subsidiary (“TRS”), or one of its wholly owned subsidiaries. Each of the hotels that we own through a joint venture investment is leased to another TRS that is owned by the respective joint venture or an entity owned in part by 44 New England.

Our principal executive office is located at 44 Hersha Drive, Harrisburg, Pennsylvania 17102. Our telephone number is (717) 236-4400. Our website address is www.hersha.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report.

AVAILABLE INFORMATION

We make available free of charge through our website (www.hersha.com) our code of ethics, corporate governance guidelines and the charters of the committees of our Board of Trustees (Acquisition Committee, Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Sub-Committee of the Audit Committee). We also make available through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. All reports that we have filed with the SEC including this annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can also be obtained free of charge from the

SEC’s website at www.sec.gov.

INVESTMENT IN HOTEL PROPERTIES

Our operating strategy focuses on increasing hotel performance for our portfolio. The key elements of this strategy are:

- working together with our hotel management companies to increase revenue per available room, or RevPAR, and to maximize the average daily rate, or ADR, and occupancy levels at each of our hotels through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and
- maximizing our hotel-level earnings by managing hotel-level costs and positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale and extended-stay lodging segments, which we believe can be expected to follow from improving economic conditions, and maximizing our operating margins.

ACQUISITIONS

We selectively acquire high quality branded luxury upper-upscale, upscale, upper-midscale and extended-stay hotels in metropolitan markets with high barriers-to-entry and independent boutique hotels in similar markets. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel’s ability to attract key demand segments, enhance hotel operations and increase long-term value. In executing our disciplined acquisition program, we will consider acquiring hotels that meet the following additional criteria:

- nationally-franchised hotels operating under popular brand families, such as Marriott, Hilton, IHG, Hyatt, Accor, and Four Seasons;
- hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes;
- hotels in our target markets where we can realize operating efficiencies and economies of scale; and
- independent boutique hotels in similar markets.

All asset acquisitions are comprehensively reviewed by the Acquisition Committee of our Board of Trustees, which consists solely of independent trustees.

Since our initial public offering in January 1999 and through December 31, 2018, we have acquired, wholly or through joint ventures, a total of 120 hotels, including 28 hotels acquired from entities controlled by certain of our trustees and executive officers. Of the 28 acquisitions from entities controlled by certain of our trustees and executive officers, 25 were newly constructed or substantially renovated by these entities prior to our acquisition. We utilize our relationships with entities that are developing or substantially renovating hotels, including entities controlled by certain of our trustees and executive officers, to identify future hotel acquisitions that we believe may be attractive to us. We intend to continue to acquire hotels from entities controlled by certain of our trustees and executive officers if approved by a majority of our independent trustees in accordance with our related party transaction policy.

DISPOSITIONS

We evaluate our hotels and the markets in which they operate on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management’s forecast and review of the cash flow potential of each hotel and re-deploy the proceeds into debt reduction, acquisitions of hotels and share buybacks. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management’s forecast of the strength of each hotel’s cash flows, its ability to remain accretive to our portfolio, and the expectations for the market in which the hotel operates. Our decision to sell a hotel is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by the Acquisition Committee of our Board of Trustees. Since our initial public offering in 1999 through December 31, 2018, we have sold a total of 78 hotels, including certain hotels contributed to joint ventures in which we maintain an ownership interest.

For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and Note 2, “Investment in Hotel Properties”.

FINANCING

We intend to finance our long-term growth with common and preferred equity issuances and debt financing with staggered maturities. Our debt includes unsecured debt in the aggregate of $951 million which is comprised of a $457 million senior unsecured credit facility (which includes a $207 million unsecured term loan and $250 million unsecured revolving line of credit), and two unsecured term loans totaling $493.9 million. Our debt also includes secured mortgage debt on our hotel properties. We intend to use our revolving line of credit capacity to pay down mortgage debt, repurchase common shares subject to market conditions, and fund future acquisitions, as well as for capital improvements and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under the revolving line of credit portion of our credit facility from time to time with proceeds from periodic common and preferred equity issuances, long-term debt financings and cash flows from operations. When purchasing hotel properties, we may issue common and preferred limited partnership interests in our operating partnership as full or partial consideration to sellers.

FRANCHISE AGREEMENTS

Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchises
Marriott International	Ritz-Carlton, Marriott, Residence Inn by Marriott, Courtyard by Marriott, TownePlace Suites, Sheraton Hotels
Hilton Hotels Corporation	Hilton Hotels, Hilton Garden Inn, Hampton Inn
IHG	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites, Candlewood Suites
Hyatt Hotels Corporation	Hyatt House, Hyatt Place, Hyatt
Pan Pacific Hotel Group	Pan Pacific

We anticipate a majority of the hotels in which we invest will be operated pursuant to franchise licenses.

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses generally obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of such hotel's revenues annually.

PROPERTY MANAGEMENT

We work closely with our hotel management companies to operate our hotels and increase hotel performance for our portfolio.

Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels as of December 31, 2018:

	Wholly Owned		Joint Ventures		Total	
Manager	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Hersha Hospitality Management, L.P.	37	6,018	7	1,087	44	7,105
South Bay Boston Management, Inc.	—	—	2	338	2	338
Marriott Management	1	86	1	115	2	201
Total	38	6,104	10	1,540	48	7,644

Each management agreement provides for a set term and is subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, all managers, including HHMLP, must qualify as an “eligible independent contractor” during the term of the management agreements.

Under the management agreements, the manager generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by the manager in performing its authorized duties are reimbursed or borne by our applicable TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. Our managers are not obligated to advance any of their own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel.

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. For the year ended December 31, 2018, these thresholds were met for one management agreement and incentive management fees of $98 thousand were earned. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

Under certain loan agreements, we have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective requirements. These capital reserves typically range from 3% to 5% of each hotel's gross revenues. In addition, we may upgrade hotels in our portfolio in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses in the Consolidated Statements of Operations.

OPERATING PRACTICES

Our hotel managers utilize centralized accounting and data processing systems, which facilitate financial statement and budget preparation, payroll management, quality control and other support functions for the on-site hotel management team. Our hotel managers also provide centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

DISTRIBUTIONS

We have made 80 consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders as approved by our Board of Trustees.

The following table sets forth distribution information for the last two calendar years.

Common Shares

Quarter to which Distribution Relates	Record Date	Payment Date	Class A Common Shares and Common Units Per Share and Per Unit Distribution Amount
2018			
Fourth Quarter	1/5/2019	1/15/2019	$ 0.28
Third Quarter	10/1/2018	10/15/2018	0.28
Second Quarter	6/29/2018	7/13/2018	0.28
First Quarter	3/29/2018	4/13/2018	0.28
2017			
Fourth Quarter	1/5/2018	1/16/2018	$ 0.28

Third Quarter	9/29/2017	10/13/2017	0.28
Second Quarter	6/30/2017	7/17/2017	0.28
First Quarter	3/31/2017	4/17/2017	0.28

Preferred Shares

Quarter to which Distribution Relates	Record Date	Payment Date	Series C Preferred Per Share Distribution Amount	Series D Preferred Per Share Distribution Amount	Series E Preferred Per Share Distribution Amount
2018					
Fourth Quarter	1/1/2019	1/15/2019	$ 0.4297	$ 0.4063	$ 0.4063
Third Quarter	10/1/2018	10/15/2018	0.4297	0.4063	$ 0.4063
Second Quarter	7/1/2018	7/16/2018	0.4297	0.4063	$ 0.4063
First Quarter	4/1/2018	4/16/2018	0.4297	0.4063	$ 0.4063
2017					
Fourth Quarter	1/1/2018	1/16/2018	$ 0.4297	$ 0.4063	$ 0.4063
Third Quarter	10/1/2017	10/17/2017	0.4297	0.4063	0.4063
Second Quarter	7/1/2017	7/15/2017	0.4297	0.4063	0.4063
First Quarter	4/1/2017	4/15/2017	0.4297	0.4063	0.4063

Our Board of Trustees will determine the amount of our future distributions in its sole discretion and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on the profitability of and cash flow available from our hotels. There can be no assurance we will continue to pay distributions at the rates above or any other rate. Additionally, we may, if necessary and allowable, pay taxable distributions of our shares or debt securities to meet the distribution requirements. There are no assurances we will be able to continue to make quarterly distributions at the current rate.

SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting lower revenues and occupancy rates during the first quarter of each year when compared to the remaining three quarters. This seasonality causes fluctuations in our quarterly operating revenues, profitability, and cash flow.

COMPETITION

The U.S. hotel industry is highly competitive. Our hotels compete with other hotels for guests in each of their markets on the basis of several factors, including, among others, location, quality of accommodations, convenience, brand affiliation, room rates, service levels and amenities, and level of customer service. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels operated under premium brands in the focused-service and full-service segments. We believe that hotels, such as our hotels, that are affiliated with leading national brand families, such as the Marriott, Hilton, Hyatt, IHG, or Pan Pacific will enjoy the competitive advantages associated with operating under such brands. Increased competition could harm our occupancy and revenues and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may materially and adversely affect our operating results and liquidity.

The upper-upscale and upscale limited service segments of the hotel business are highly competitive. There are many competitors in our markets and new hotels are routinely being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours. We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources and access to capital than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us, increase the bargaining power of property owners seeking to sell to us and decrease the attractiveness of the terms on which we may acquire our targeted hotel investments, including the cost thereof, making it more difficult for us to acquire new properties on attractive terms.

EMPLOYEES

As of December 31, 2018, we had 54 employees who were principally engaged in managing the affairs of the Company unrelated to property operations. We believe that our relations with our employees are satisfactory.

TAX STATUS

We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on the portion of our income that is currently distributed to our shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax (including any applicable alternative minimum tax for the years prior to 2018) on our taxable income at regular corporate tax rates. Additionally, we will generally be unable to qualify as a REIT for four years following the year in which qualification is lost. Even if we qualify for taxation as a REIT, we will be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

We own interests in several TRSs. We may own up to 100% of the stock of a TRS. A TRS is a taxable corporation that may lease hotels from our operating partnership and its subsidiaries under certain circumstances. Overall, no more than 20% of the value of our assets may consist of securities of one or more TRS. In addition, no more than 25% of our gross income for any year may consist of dividends from one or more TRS and income from certain non-real estate related sources.

A TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager that qualifies as an "eligible independent contractor." To qualify for that treatment, the manager must satisfy the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating “qualified lodging facilities” for any person unrelated to us and the TRS;
2. such manager does not own, directly or indirectly, more than 35% of our shares;
3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and
4. we do not, directly or indirectly, derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation, and in certain circumstances, other limitations on deductions of interest may apply. A 100% excise tax is imposed on transactions between a TRS and us that are not on an arm’s-length basis.

Additional Material U.S. Federal Income Tax Consequences

The following is a summary of certain additional material U.S. federal income tax consequences with respect to the ownership of our shares. This summary supplements and should be read together with “Federal Income Tax Consequences Of Our Status As A REIT” in the prospectus dated February 28, 2017 and filed as part of our registration statement on Form S-3ASR (No. 333-216317).

The Tax Cuts and Jobs Act made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders. As of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37%, (3) the corporate alternative minimum tax is repealed, (4) the backup withholding rate for U.S. shareholders is reduced to 24%, and (5) the maximum rate of withholding with respect to our distributions to non-U.S. shareholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. In addition, under proposed Treasury regulations, withholding under the Foreign Account Tax Compliance Act ("FATCA") will not apply to proceeds from the sale of our capital shares by non-U.S. shareholders. FATCA withholding continues to apply to our dividends paid to non-U.S. shareholders if those shareholders do not meet certain disclosure requirements.

REGULATION

General

Our hotels are subject to various U.S. federal, state and local laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of our hotels has the necessary permits and approvals to operate its business.

Americans with Disabilities Act

Our hotels must comply with applicable provisions of the Americans with Disabilities Act of 1993, or ADA, to the extent that such hotels 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 hotels where such removal is readily achievable. We believe that our hotels 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, non-compliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect.

Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator (including tenants) of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up such contamination at that property or emanating from that property. These costs could be substantial and liability under these laws may attach without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our hotels may expose us to third-party liability or materially and adversely affect our ability to sell, lease or develop the real estate or to incur debt using the real estate as collateral.

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew and waste management. Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance.

Environmental laws require that owners or operators of buildings with asbestos-containing building materials properly manage and maintain these materials, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

Some of our hotels may contain or develop harmful mold or suffer from other adverse conditions, which could lead to liability for adverse health effects and costs of remediation. The presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected hotel or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from guests or employees at our hotels and others if property damage or health concerns arise.

INSURANCE

We require comprehensive insurance to be maintained by our hotel management companies, including HHMLP, on each of our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

FINANCIAL INFORMATION ABOUT SEGMENTS

We allocate resources and assess operating performance based on individual hotels and consider each one of our hotels to be an operating segment. No operating segment, individually, meets the threshold for a reportable segment as defined within ASC Topic 280 – Segment Reporting, nor do they fully satisfy the requisite aggregation criteria therein. As a result, the Company does not present separate operating segment information within the Notes to the Consolidated Financial Statements. See “Note 1 - Organization and Summary of Significant Accounting Policies” in Item 8 of this Annual Report on Form 10-K for segment financial information.

Item 1A. Risk Factors

You should carefully consider the following risks, together with the other information included in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our securities could decline, and you may lose all or part of any investment you have in our securities.

Risks Related to the Economy and Credit Markets

Difficult economic conditions may adversely affect the hotel industry.

The performance of the hotel industry has historically been linked to key macroeconomic indicators, such as GDP growth, employment, corporate earnings and investment, and travel demand. If the U.S. economy should falter for any reason and there is an extended period of economic weakness, a recession or depression, our revenues and profitability could be adversely affected.

Economic conditions may reduce demand for hotel properties and adversely affect the Company's profitability.

The performance of the lodging industry is highly cyclical and has traditionally been closely linked with the performance of the general economy and, specifically, growth in the U.S. gross domestic product, employment, and investment and travel demand. The Company cannot predict the pace or duration of the global economic cycle or the cycles of the lodging industry. In the event conditions in the industry deteriorate or do not continue to see sustained improvement, or there is an extended period of economic weakness, the Company's occupancy rates, revenues and profitability could be adversely affected. In addition, other macroeconomic factors, such as consumer confidence and conditions which negatively shape public perception of travel, may have a negative effect on the lodging industry and may adversely affect the Company's business. Furthermore, some of the Company's hotels are classified as upper upscale or upscale. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. This characteristic may result from the fact that upper upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. In addition, in periods of weak demand, as may occur during a general economic recession, profitability is negatively affected by the relatively high fixed costs of operating upper upscale and upscale hotels. Consequently, any uncertainty in the general economic environment could adversely affect the Company's business.

A recession could result in declines in our average daily room rates, occupancy and RevPAR, and thereby have a material adverse effect on our results of operations.

The performance of the hotel industry has traditionally been closely linked with the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. While operating results have subsequently improved, there can be no assurance that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower growth in the economy, changes in unemployment, underemployment, administration policies and changes in travel patterns. A stall in the economic recovery or a resurgent recession would have a material adverse effect on our results of operations. While we believe the U.S. economy continues on a trajectory of slow, steady growth, other economies around the world, including Europe, Canada, Japan and China, have demonstrated sluggish, stagnant or slowing growth in recent quarters. It remains to be seen what effect, if any, the slowing in these economies will have on us. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we would be required to spend additional funds for that property's operating expenses.

In addition, if operating results decline at our hotels secured by mortgage debt, there may not be sufficient operating profit from the hotel to cover the debt service on the mortgage. In such a case, we may be forced to choose from a number of unfavorable options, including using corporate cash, drawing on our revolving credit facility, selling the hotel on disadvantageous terms, including at an unattractive price, or defaulting on the mortgage debt and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our shareholders.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs, including expansion, acquisition and other activities, on favorable terms or at all, which could materially and adversely affect us.

In the recession of 2008 and 2009 and some recent years, the U.S. stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing, even for companies which otherwise are qualified to obtain financing. Continued volatility and uncertainty in the stock and credit markets in the U.S. and abroad may negatively impact our ability to access additional financing for our capital needs, including expansion, acquisition activities and other purposes, on favorable terms or at all, which may negatively affect our business. Additionally, due to this uncertainty, we may in the future be unable to refinance or extend our debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. If we are not successful in refinancing our debt when it becomes due, we may be forced to dispose of hotels on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity capital or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

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

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

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

RISKS RELATED TO THE HOTEL INDUSTRY

Our hotels are subject to general hotel industry operating risks, which may impact our ability to make distributions to shareholders.

Our hotels are subject to all operating risks common to the hotel industry. The hotel industry has experienced volatility in the past, as have our hotels, and there can be no assurance that such volatility will not occur in the future.

These risks include, among other things: competition from other hotels; over-building in the hotel industry that could adversely affect hotel revenues and hotel values; increases in operating costs due to inflation and other factors, which may not be offset by increased room rates; reduction in business and commercial travel and tourism, including as a result of legislation or executive policies; strikes and other labor disturbances of hotel employees; increases in energy costs and other expenses of travel; civil unrest; adverse effects of general and local economic conditions; and adverse political conditions. These factors could reduce revenues of the hotels and adversely affect our ability to make distributions to our shareholders.

The value of our hotels depends on conditions beyond our control.

Our hotels are subject to varying degrees of risk generally incident to the ownership of hotels. The underlying value of our hotels, our income and ability to make distributions to our shareholders are dependent upon the operation of the hotels in a manner sufficient to maintain or increase revenues in excess of operating expenses. Hotel revenues may be adversely affected by adverse changes in national economic conditions, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, competition from other hotels, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate tax rates and other operating expenses, adverse changes in governmental rules and fiscal policies, civil unrest, acts of terrorism, acts of God, including earthquakes, hurricanes and other natural disasters, acts of war, adverse changes in zoning laws, and other factors that are beyond our control. In particular, general and local economic conditions may be adversely affected by terrorist incidents, such as those in New York, Washington, D.C. and Boston; cities where many of our hotels are located. Our management is unable to determine the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide, on the U.S. economy, on us or our hotels or on the market price of our securities.

Our investments are concentrated in a single segment of the hotel industry.

Our primary business strategy is to continue to acquire high quality, upper-upscale, and upscale limited service and extended-stay hotels in metropolitan markets with high barriers to entry including New York, Washington DC, Boston, Philadelphia, South Florida, select markets on the West Coast, and other markets with similar characteristics. We are subject to risks inherent in concentrating investments in a single industry and in a specific market segment within that industry. The adverse effect on amounts available for distribution to shareholders resulting from a downturn in the hotel industry in general or the mid-scale segment in particular could be more pronounced than if we had diversified our investments outside of the hotel industry or in additional hotel market segments.

Operating costs and capital expenditures for hotel renovation may be greater than anticipated and may adversely impact distributions to shareholders.

Hotels generally have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement of furniture, fixtures and equipment. Under the terms of our management agreements, we generally are obligated to pay the cost of expenditures for items that are classified as capital items under GAAP that are necessary for the continued operation of our hotels.

If these expenses exceed our expectations, the additional cost could have an adverse effect on amounts available for distribution to shareholders. In addition, we may acquire hotels in the future that require significant renovation. Renovation of hotels involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from hotels.

The hotel industry is highly competitive.

The hotel industry is highly competitive. Our hotels compete with other existing and new hotels in their geographic markets. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Many of our competitors have substantially greater marketing and financial resources than we do. Effective marketing by our competitors may reduce our hotel revenue and adversely impact our ability to make distributions to our shareholders.

Risks of operating hotels under franchise licenses, which may be terminated or not renewed, may impact our ability to make distributions to shareholders.

The continuation of our franchise licenses is subject to specified operating standards and other terms and conditions. All of the franchisors of our hotels periodically inspect our hotels to confirm adherence to their operating standards. The failure to maintain such standards or to adhere to such other terms and conditions could result in the loss or cancellation of the applicable franchise license. It is possible that a franchisor could condition the continuation of a franchise license on the completion of capital improvements that our trustees determine are too expensive or otherwise not economically feasible in light of general economic conditions, the operating results or prospects of the affected hotel. In that event, our trustees may elect to allow the franchise license to lapse or be terminated.

There can be no assurance that a franchisor will renew a franchise license at each option period. If a franchisor terminates a franchise license, we may be unable to obtain a suitable replacement franchise, or to successfully operate the hotel independent of a franchise license. The loss of a franchise license could have a material adverse effect upon the operations or the underlying value of the related hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. Our loss of a franchise license for one or more of the hotels could have a material adverse effect on our partnership’s revenues and our amounts available for distribution to shareholders.

The hotel industry is seasonal in nature.

The hotel industry is seasonal in nature. Generally, in certain markets we operate, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. Revenues for hotels and resorts in tourist areas generally are substantially greater during tourist season than other times of the year. Our hotels’ operations historically reflect this trend in these markets. As a result, our results of operations may vary on a quarterly basis, impairing comparability of operating data and financial performance on a quarter to quarter basis.

The cyclical nature of the hotel industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The hotel industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, 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 the hotel industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

The increasing use of Internet travel intermediaries by consumers may materially and adversely affect our profitability.

Although a majority of rooms sold on the Internet are sold through websites maintained by the hotel franchisors and managers, some of our hotel rooms will be booked through Internet travel intermediaries. These Internet travel intermediaries may purchase rooms at a negotiated discount from participating hotels, which could result in lower room rates than the franchisor or manager otherwise could have obtained. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and any hotel management companies that we engage. 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. If consumers develop brand loyalties to Internet reservations systems rather than to the brands under which our hotels are franchised, the value of our hotels could deteriorate and our business could be materially and adversely affected. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be materially and adversely affected.

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

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

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

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

The outbreak of widespread contagious disease could reduce travel and adversely affect hotel demand.
The widespread outbreak of infectious or contagious disease, such as influenza, measles, mumps and Zika virus, in the U.S. could reduce travel and adversely affect the hotel industry generally and our business in particular.
RISKS RELATED TO OUR BUSINESS AND OPERATIONS
We face risks associated with the use of debt, including refinancing risk.
At December 31, 2018, we had outstanding long-term debt of approximately $1.1 billion. We may borrow additional amounts from the same or other lenders in the future. Any future repurchases of our own shares may require additional borrowings. Some of these additional borrowings may be secured by our hotels. Our declaration of trust (as amended and restated, our “Declaration of Trust”) does not limit the amount of indebtedness we may incur. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our hotels to foreclosure. Our indebtedness contains various financial and non-financial events of default covenants customarily found in financing arrangements. Our mortgages payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow from the applicable hotels.
We have a substantial amount of debt that will mature within the next two to five years. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of properties, we may be forced to use operating income to repay such indebtedness, which would have a material adverse effect on our cash available for distribution in years when significant “balloon” payments come due. In some such cases, we may lose the applicable hotels to foreclosure. This risk is particularly significant. See Item 7A of this Annual Report on Form 10-K for a detailed schedule of debt principal repayments.
We face high levels of competition for the acquisition of hotel properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.
We face competition for investment opportunities in high quality, upper-upscale, and upscale limited service and extended-stay hotels from entities organized for purposes substantially similar to our objectives, as well as other purchasers of hotels. We compete for such investment opportunities with entities that have substantially greater financial resources than we do, including access to capital or better relationships with franchisors, sellers or lenders. Our competitors may generally be able to accept more risk than we can manage prudently and may be able to borrow the funds needed to acquire hotels on more favorable terms. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell.
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.
We do not operate our hotels and, as a result, we do not have complete control over implementation of our strategic decisions.

18

In order for us to satisfy certain REIT qualification rules, we cannot directly or indirectly operate or manage any of our hotels. Instead, we must engage an independent management company to operate our hotels. As of December 31, 2018, our TRSs and our joint venture partnerships have engaged independent management companies as the property managers for all of our wholly owned hotels leased to our TRSs and the respective hotels for the joint ventures, as required by the REIT qualification rules. The management companies operating the hotels make and implement strategic business decisions with respect to these hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by the management companies operating the hotels may not be in the best interests of a particular hotel or of the Company. Accordingly, we cannot assure you that the management companies will operate our hotels in a manner that is in our best interests. In addition, the financial condition of the management companies could impact their future ability to operate our hotels.

Our acquisitions may not achieve expected performance, which may harm our financial condition and operating results.

We anticipate that acquisitions will largely be financed with the net proceeds of securities offerings and through externally generated funds such as borrowings under our revolving credit facility and other secured and unsecured debt financing. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that estimates of the cost of improvements necessary to acquire and market properties will prove inaccurate, as well as general investment risks associated with any new real estate investment. As a result, we may not be able to generate enough cash from these hotels to make debt service payments or pay operating expenses.

Acquisition of hotels with limited operating history may not achieve desired results.

From time to time our acquisitions may consist of newly-developed hotels. Newly-developed or newly-renovated hotels do not have the operating history that would allow our management to make pricing decisions in acquiring these hotels based on historical performance. The purchase prices of these hotels are based upon management’s expectations as to the operating results of such hotels, subjecting us to risks that such hotels may not achieve anticipated operating results or may not achieve these results within anticipated time frames. As a result, we may not be able to generate enough cash flow from these hotels to make debt payments or pay operating expenses. In addition, room revenues may be less than that required to provide us with our anticipated return on investment. In either case, the amounts available for distribution to our shareholders could be reduced.

We may be unable to integrate acquired hotels into our operations or otherwise manage our planned growth, which may adversely affect our operating results.

We cannot assure you that we or our management companies will be able to adapt our management, administrative, accounting and operational systems and arrangements, or hire and retain sufficient operational staff to successfully integrate these investments into our portfolio and manage any future acquisitions of additional assets without operational disruptions or unanticipated costs. Acquisition of hotels generates additional operating expenses that we will be required to pay. As we acquire additional hotels, we will be subject to the operational risks associated with owning new lodging properties. Our failure to integrate successfully any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to shareholders or make other payments in respect of securities issued by us.

Most of our hotels are located in major gateway urban markets in the United States with many are located in the area from Washington, DC to Boston, MA, which may increase the effect of any regional or local economic conditions.

Most of our hotels are located in major gateway urban markets in the United States, with many located in the area from Washington, DC to Boston, MA. As a result, regional or localized adverse events or conditions, such as an economic recession, in any of these major gateway urban markets could have a significant adverse effect on our operations, and ultimately on the amounts available for distribution to shareholders.

Our ownership of hotels in the New York City market exposes us to concentration risk, which may lead to increased volatility in our results of operations.

For the year ended December 31, 2018, our consolidated portfolio of hotels in New York City accounted for approximately 23% of our hotel operating revenues. The operations of our consolidated portfolio of hotels in New York City will have a material impact on our overall results of operations. Concentration risk with respect to our ownership of hotels in the New York City market may lead to increased volatility in our overall results of operations.

Our overall results of operations may be adversely affected and our ability to pay distributions to our shareholders could be negatively impacted in the event:

- downturns in lodging fundamentals are more severe or prolonged in New York City compared to the United States as a whole;
- negative economic conditions are more severe or prolonged in New York City compared to other areas, due to concentration of the financial industry in New York or otherwise;
- as new hotel supply enters the New York City market, this could impact our ability to grow ADR and RevPar as a result of the new supply; or
- New York City is impacted by other unforeseen events beyond our control, including, among others, terrorist attacks and travel related health concerns including pandemics and epidemics.

Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We may acquire properties in markets that are new to us. When we acquire properties located in new markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. We work to mitigate such risks through extensive diligence and research and associations with experienced service providers. However, there can be no guarantee that all such risks will be eliminated.

We own a limited number of hotels and significant adverse changes at one hotel may impact our ability to make distributions to shareholders.

As of December 31, 2018, our portfolio consisted of 38 wholly-owned limited and full service properties, 1 property within a consolidated joint venture investment, and joint venture investments in 9 hotels with a combined total of 7,644 rooms. However, certain larger hotels or hotels in certain locations disproportionately impact our performance. Accordingly, significant adverse changes in the operations of any one of these hotels could have a material adverse effect on our financial performance and on our ability to make expected distributions to our shareholders.

We focus on acquiring hotels operating under a limited number of franchise brands, which creates greater risk as the investments are more concentrated.

We place particular emphasis in our acquisition strategy on hotels similar to our current hotels. We invest in hotels operating under a few select franchises and therefore will be subject to risks inherent in concentrating investments in a particular franchise brand, which could have an adverse effect on amounts available for distribution to shareholders. These risks include, among others, the risk of a reduction in hotel revenues following any adverse publicity related to a specific franchise brand or the failure of the franchisor to maintain a certain brand.

We depend on key personnel.

We depend on the services of our existing senior management team, including Jay H. Shah, Neil H. Shah, Ashish R. Parikh and Michael R. Gillespie, to carry out our business and investment strategies. As we expand, we will continue to need to attract and retain qualified additional senior management. We have employment agreements with certain of our senior management; however, the employment agreements may be terminated under certain circumstances. The termination of an employment agreement and the loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial conditions and disputes between us and our co-venturers.

As of December 31, 2018, we had several joint ventures in which we shared ownership and decision-making power with one or more parties. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility: that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Our joint venture partners must agree in order for the applicable joint venture to take, or in some cases, may have control over whether the applicable joint venture will take, specific major actions, such as budget approvals, acquisitions, sales of assets, debt financing, executing lease agreements, and vendor approvals. Under these joint venture arrangements, any disagreements between us and our partners may result in delayed decisions. Our inability to take unilateral actions that we believe are in our best interests may result in missed opportunities and an ineffective allocation of resources and could have an adverse effect on the financial performance of the joint venture and our operating results.

We engage in hedging transactions to limit our exposure to fluctuations in interest rates, which can result in recognizing interest expense at rates higher than the stated rates within our floating rate debt.

We enter into hedging transactions intended to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition, particularly in a declining rate environment. No hedging activity can completely insulate us from the risks associated with changes in interest rates. Moreover, interest rate hedging could fail to protect us or could adversely affect our operating results because, among other things:

- Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- The duration of the hedge may not match the duration of the related liability;
- The party at risk in the hedging transaction may default on its obligation to pay;
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value.

Hedging transactions may reduce our shareholders' equity.

Hedging involves risk and typically involves costs, including transaction costs, which may reduce returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distribution to shareholders. The REIT qualification rules may also limit our ability to enter into hedging transactions. We generally intend to hedge as much of our interest rate risk as our management determines is in our best interests given the cost of such hedging transactions and the requirements applicable to REITs. If we are unable to hedge effectively because of the cost of such hedging transactions or the limitations imposed by the REIT rules, we will face greater interest risk exposure than may be commercially prudent.

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 and our hotel managers purchase some of our information technology from vendors, on whom our systems depend. We and our hotel managers rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we and our hotel managers have taken steps we believe are necessary to protect the security of our information systems and the data maintained in those systems, it is possible that the safety and security measures taken 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. In November 2018, Marriott announced a data security incident involving a guest reservation database. Security breaches such as the one that occurred at Marriott and, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO REAL ESTATE INVESTMENT GENERALLY

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

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in operating, economic and other conditions will be limited. No assurances can be given that the fair market value of any of our hotels will not decrease in the future.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

We require comprehensive insurance to be maintained on each of the our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

Real estate is subject to property taxes.

Each hotel is subject to real and personal property taxes. The real and personal property taxes on hotel properties in which we invest may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. Many state and local governments are facing budget deficits that have led many of them, and may in the future lead others to, increase assessments and/or taxes. If property taxes increase, our operating results may be negatively affected.

Environmental matters could adversely affect our results.

Operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to shareholders. Phase I environmental assessments have been obtained on all of our hotels. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.

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

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

Costs associated with complying with the ADA may adversely affect our financial condition and operating results.

Under the ADA, all public accommodations are required to meet certain 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 that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies affecting the use and operation of the hotels, including changes to building codes and fire and life-safety codes, may occur. If we were required to make substantial modifications at the hotels to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

RISKS RELATED TO CONFLICTS OF INTEREST

Due to conflicts of interest, many of our existing agreements may not have been negotiated on an arm's-length basis and may not be in our best interest.

Some of our officers and trustees have ownership interests in HHMLP and in entities with which we have entered into transactions, including hotel acquisitions and dispositions and certain financings. Consequently, the terms of our agreements with those entities, including hotel contribution or purchase agreements, the Option Agreement (as defined below) between our operating partnership and some of the trustees and officers and our property management agreements with HHMLP, while intended to be negotiated on an arm's-length basis, may not have been and may not be in the best interest of all our shareholders. We have policies in place to encourage agreements to be negotiated on an arm's-length basis. Transactions with related persons must be approved by a majority of the Company's independent trustees. The Board of Trustees' policy requires any independent trustee with a direct or indirect interest in the transaction to excuse himself or herself from any consideration of the related person transaction in which he or she has an interest.

Conflicts of interest with HHMLP may result in decisions that do not reflect our best interests.

We have entered into an option agreement (as amended, the "Option Agreement") with each of our officers and certain trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

The following officers and trustees own collectively approximately 75% of HHMLP: Hasu P. Shah, Jay H. Shah, and Neil H. Shah. Conflicts of interest may arise with respect to the ongoing operation of our hotels including, but not limited to, the enforcement of the contribution and purchase agreements, the Option Agreement and our property management agreements with HHMLP. These officers and trustees also make decisions for our company with respect to property management. Consequently, these officers and trustees may not act solely in the best interests of our shareholders relating to property management by HHMLP.

Conflicts of interest relating to sales or refinancing of hotels acquired from some of our trustees and officers may lead to decisions that are not in our best interest.

Some of our non-independent trustees and officers have unrealized gains associated with their interests in the hotels we have acquired from them and, as a result, any sale of these hotels or refinancing or prepayment of principal on the indebtedness assumed by us in purchasing these hotels may cause adverse tax consequences to such trustees and officers. Therefore, our interests and the interests of these individuals may be different in connection with the disposition or refinancing of these hotels.

Hotels owned or acquired by some of our trustees and officers may hinder these individuals from spending adequate time on our business.

Some of our trustees and officers own hotels and may develop or acquire new hotels, subject to certain limitations. Such ownership, development or acquisition activities may materially affect the amount of time these officers and trustees devote to our affairs. Some of our trustees and officers operate hotels that are not owned by us, which may materially affect the amount of time that they devote to managing our hotels. Pursuant to the Option Agreement we have an option to acquire any hotels developed by our officers and trustees.

RISKS RELATING TO OUR STRUCTURE

There are no assurances of our ability to make distributions in the future.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. However, our ability to pay dividends may be adversely affected by the risk factors described in this annual report. All distributions will be made at the discretion of our Board of Trustees and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Trustees may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend or interest rate on our securities or seek securities paying higher dividends or interest. The market price of our common shares likely will be based primarily on the earnings and return that we derive from our investments and income with respect to our properties and our related distributions to shareholders, and not from the market value or underlying appraised value of the properties or investments themselves. The market price of our preferred shares is based in large part on prevailing interest rates. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common shares and preferred shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common shares could decrease because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

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, 3,000,000 Series C Preferred Shares, 7,701,700 Series D Preferred Shares and 4,001,514 Series E Preferred Shares were issued and outstanding. Holders of our outstanding 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 our 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 our preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Future offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of equity securities, including classes of preferred or common shares. Upon liquidation, holders of our 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 may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Our preferred shares could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares.

Because our decision to issue securities in any future offering 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 offerings reducing the market price of our common shares and diluting their share holdings in us.

We may change our distribution policy in the future.

In the past we have reduced the quarterly distributions paid to our shareholders, and we may reduce or eliminate the quarterly distribution paid to our shareholders in the future. The decision to declare and pay distributions on our common shares in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our board of trustees and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness and preferred shares, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of trustees deems relevant. Any change in our distribution policy could have a material adverse effect on the market price of our common shares.

The market price of our securities could be volatile and could decline, resulting in a substantial or complete loss of your investment in our securities.

The stock markets have experienced significant price and volume fluctuations in the recent past. As a result, the market price of our securities has been and could be similarly volatile in the future, and investors in our securities may experience a decrease in the value of their investments, including decreases unrelated to our operating performance or prospects. The market price of our securities could be subject to wide fluctuations in response to a number of factors, including:

- our operating performance and the performance of other similar companies;
- actual or anticipated differences in our operating results;
- changes in our revenues or earnings estimates or recommendations by securities analysts; publication of research reports about us or our industry by securities analysts;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as mergers and acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the passage of legislation or other regulatory developments or executive policies that adversely affect us or our industry;
- speculation in the press or investment community; actions by institutional shareholders;
- changes in accounting principles;
- terrorist acts; and
- general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management’s attention and resources.

Future sales of our common shares, preferred shares, or securities convertible into or exchangeable or exercisable for our common shares could depress the market price of our common shares.

We cannot predict whether future sales of our common shares, preferred shares, or securities convertible into or exchangeable or exercisable for our common shares or the availability of these securities for resale in the open market will decrease the market price of our common shares. Sales of a substantial number of these securities in the public market, including sales upon the redemption of Common Units held by the limited partners of our operating partnership, (other than us and our subsidiaries) or the perception that these sales might occur, may cause the market price of our common shares to decline and you could lose all or a portion of your investment.

Future issuances of our common shares, preferred shares, or other securities convertible into or exchangeable or exercisable for our common shares, including, without limitation, common units of beneficial interest in our Operating Partnership (“Common Units”), in connection with property, portfolio or business acquisitions and issuances of equity-based awards to participants in our equity incentive plans, could have an adverse effect on the market price of our common shares. Future issuances of these securities also could adversely affect the terms upon which we obtain additional capital through the sale of equity securities. In addition, future sales or issuances of our common shares may be dilutive to existing shareholders.

Our Board of Trustees may authorize the issuance of additional shares that may cause dilution or prevent a transaction that is in the best interests of our shareholders.

Our Declaration of Trust authorizes the Board of Trustees, without shareholder approval, to:

- amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have the authority to issue;
- cause us to issue additional authorized but unissued common shares or preferred shares; or

- classify or reclassify any unissued common or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including the issuance of additional common shares or preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters.

Any one of these events could cause dilution to our common shareholders, delay, deter or prevent a transaction or a change in control that might involve a premium price for the common shares or otherwise not be viewed in the best interest of holders of common shares.

Our Declaration of Trust contains a provision that creates staggered terms for our Board of Trustees.

Our Board of Trustees is divided into two classes, the terms of which expire every two years. Trustees of each class are elected for two-year terms upon the expiration of their current terms and each year one class of trustees will be elected by the shareholders. The staggered terms of trustees may delay, deter or prevent a tender offer, a change in control of us or other transaction, even though such a transaction might be viewed in the best interest of the shareholders.

Certain provisions of Maryland law may discourage a third party from acquiring us.

Under the Maryland General Corporation Law, as amended (MGCL), as applicable to REITs, certain “business combinations” (including certain issuances of equity securities) between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust’s shares, or an affiliate thereof, are prohibited for five years after the most recent date on which such shareholder acquired at least ten percent of the voting power of the trust’s shares. Thereafter, any such business combination must be approved by two super-majority shareholder votes unless, among other conditions, the trust’s common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. These provisions could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests. Although our bylaws contain a provision exempting acquisitions of our shares from the control share acquisition legislation referenced above, there can be no assurance that this provision will not be amended or eliminated at any time in the future.

Our Board of Trustees may change our investment and operational policies without a vote of the common shareholders.

Our major policies, including our policies with respect to acquisitions, financing, growth, operations, debt limitation and distributions, are determined by our Board of Trustees. The Trustees may amend or revise these and other policies from time to time without a vote of the holders of the common shares.

Our Board of Trustees and management make decisions on our behalf, and shareholders have limited management rights.

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 ordinary prudent person in a like position would use under similar circumstances. Our shareholders have no right or power to take part in our management except through the exercise of voting rights on certain specified matters. The Board of Trustees is responsible for our management and strategic business direction, and our management is responsible for our day-to-day operations. Certain policies of our Board of Trustees may not be consistent with the short-term best interests of our shareholders.

RISKS RELATED TO OUR TAX STATUS

If we fail to maintain our qualification as a REIT, our dividends will not be deductible to us, and our income will be subject to taxation, which would reduce the cash available for distribution to our shareholders.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing REITs are limited. Our continued qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding shares of beneficial interest, the nature of our assets, the sources of our income, and the amount of our distributions to our shareholders. Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year and did not qualify for certain statutory relief provisions, we would not be allowed a deduction for distributions to our shareholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax for taxable years prior to 2018) on our taxable income at regular corporate rates. 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, and trading prices for, our shares. Unless entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, amounts available for distribution to shareholders would be reduced for each of the years involved. Although we currently intend to continue to operate in a manner so as to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Trustees, with the consent of holders of two-thirds of the outstanding shares, to revoke our REIT election.

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.

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

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- 100% of our undistributed taxable income required to be distributed from prior years.

We have distributed, and intend to continue to distribute, our taxable income to our shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax. 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 we regard as unfavorable, or sell assets at prices or at times we regard as unfavorable to distribute out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year. In the past we have borrowed, and in the future we may borrow, to pay distributions to our shareholders and the limited partners of our operating partnership. Such borrowings subject us to risks from borrowing as described herein. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

If the leases of our hotels to our TRSs are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

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 TRSs pursuant to the lease of our hotels 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 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 federal income tax purposes, we would fail to qualify as a REIT.

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

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from 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% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's 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, and in certain circumstances, other limitations on the deductibility of interest may apply. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable federal, foreign, 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% 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% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation discussed above or to avoid application of the 100% excise tax discussed above.

If our 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 our hotels to our TRSs. A TRS will not be treated as a “related party tenant,” and will not be treated as directly operating a lodging facility, which is prohibited, to the extent the TRS leases properties from us that are managed by an “eligible independent contractor.”

We believe that the rent paid by our TRSs is qualifying income for purposes of the REIT gross income tests and that our TRSs qualify to be treated as taxable REIT subsidiaries for federal income tax purposes, but there can be no assurance that the Internal Revenue Service, or the IRS, will not challenge this treatment or that a court would not sustain such a challenge. If the IRS successfully challenged this treatment, we would likely fail to satisfy 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 satisfy either the asset or gross income tests, we would likely lose our REIT qualification for federal income tax purposes, unless certain relief provisions applied.

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

The federal income tax laws governing REITs are complex.

We intend to continue to operate in a manner so as to maintain our qualification as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so we can continue to qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

28

Complying with REIT requirements may force us to sell otherwise attractive investments.

To maintain our qualification as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. If we fail to comply with these requirements at the end of any calendar quarter, and the failure exceeds a de minimis threshold, we may be able to preserve our REIT status if (a) the failure was due to reasonable cause and not to willful neglect, (b) we dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, (c) we file a schedule with the IRS, describing each asset that caused the failure, and (d) we pay an additional tax of the greater of $50,000 or the product of the highest applicable tax rate multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets that would be treated as sales for 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. We may be subject to the prohibited transaction tax upon a disposition of real property. 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 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 make taxable dividends that are payable partly in cash and partly in shares. 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). 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.

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. holders is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning after December 31, 2018 and before January 1, 2026, under the Tax Cuts and Jobs Act, or TCJA, 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 (currently 21%) 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.

Our share ownership limitation may prevent certain transfers of our shares.
In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). Our Declaration of Trust prohibits direct or indirect ownership (taking into account applicable ownership provisions of the Code) of more than (a) 9.9% of the aggregate number of outstanding common shares of any class or series or (b) 9.9% of the aggregate number of outstanding preferred shares of any class or series of outstanding preferred shares by any shareholder or group, or the Ownership Limitation. Generally, the shares of beneficial interest owned by related owners will be aggregated for purposes of the Ownership Limitation. The Board of Trustees, upon receipt of advice of counsel or other evidence satisfactory to the Board of Trustees, in its sole and absolute discretion, may exempt a shareholder from the Ownership Limitation. The Ownership Limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests. Any transfer of shares of beneficial interest that would violate the Ownership Limitation, cause us to have fewer than 100 shareholders, cause us to be “closely held” within the meaning of Section 856(h) of the Code or cause us to own, directly or indirectly, 10% or more of the ownership interest in any tenant (other than a TRS) will be void, the intended transferee of such shares will be deemed never to have had an interest in such shares, and such shares will be designated “shares-in-trust.” Further, we will be deemed to have been offered shares-in-trust for purchase at the lesser of the market price (as defined in the Declaration of Trust) on the date we accept the offer and the price per share in the transaction that created such shares-in-trust (or, in the case of a gift, devise or non-transfer event (as defined in the Declaration of Trust), the market price on the date of such gift, devise or non-transfer event). Therefore, the holder of shares of beneficial interest in excess of the Ownership Limitation will experience a financial loss when such shares are purchased by us, if the market price falls between the date of purchase and the date of redemption.
We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares.
At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. The TCJA significantly changed the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders. Technical corrections or other amendments to the TCJA or additional administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future law changes on REITs and their shareholders. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

The following table sets forth certain information with respect to the 38 hotels we wholly owned and 1 hotel owned within our consolidated joint venture as of December 31, 2018, all of which are consolidated on the Company's financial statements.

Market	Name	Location	Year Opened	Number of Rooms
Boston Urban and Metro	The Envoy, Boston Seaport	Boston, MA	2015	136
	The Boxer, Boston	Boston, MA	2004	80
	Courtyard by Marriott Brookline	Brookline/Boston, MA (1)	2003	188
	Holiday Inn Express Cambridge	Cambridge, MA	1997	112
	Mystic Marriott Hotel & Spa	Groton, CT	2001	285
California - Washington	The Ambrose Hotel, Santa Monica	Santa Monica, CA	2015	77
	The Sanctuary Beach Resort	Monterey Bay, CA	2014	60
	The Hotel Milo, Santa Barbara	Santa Barbara, CA (1)	2001	122
	Courtyard by Marriott Los Angeles Westside	Los Angeles, CA	2008	260
	Courtyard by Marriott Downtown San Diego	San Diego, CA	1999	245
	Courtyard by Marriott Sunnyvale	Sunnyvale, CA	2014	145
	TownePlace Suites Sunnyvale	Sunnyvale, CA (1)	2003	94
	The Pan Pacific Hotel Seattle	Seattle, WA	2006	153
NYC Urban	Hyatt Union Square	Union Square, New York, NY	2013	178
	Duane Street Hotel	TriBeCa, New York, NY	2008	43
	Hilton Garden Inn Manhattan Midtown East	Midtown East, New York, NY	2014	206
	Hilton Garden Inn TriBeCa	TriBeCa, New York, NY	2009	151
	Hampton Inn Seaport	Seaport, New York, NY	2006	65
	Holiday Inn Express Chelsea	Madison Square Garden, New York, NY	2006	228
	Hilton Garden Inn JFK	JFK Airport, New York, NY (1)	2005	192
	Gate Hotel JFK Airport	JFK Airport, New York, NY (1)	2008	150
	Nu Hotel, Brooklyn	Brooklyn, New York, NY	2008	93
NY-NJ Metro	Hyatt House White Plains	White Plains, NY	2000	187
Philadelphia	The Rittenhouse Hotel	Philadelphia, PA	2004	118
	Philadelphia Westin	Philadelphia, PA	1990	294
	Hampton Inn Center City/ Convention Center	Philadelphia, PA	2001	250
	Sheraton Wilmington South	New Castle, DE	2011	192

Market	Name	Location	Year Opened	Number of Rooms
South Florida	Cadillac Hotel & Beach Club	Miami, FL	2004	357
	The Ritz-Carlton, Coconut Grove	Coconut Grove, FL	2002	115
	The Blue Moon Hotel, Miami Beach	Miami, FL	2013	75
	The Winter Haven Hotel, Miami Beach	Miami, FL	2013	70
	Residence Inn Miami Coconut Grove	Coconut Grove, FL	2000	140
	Parrot Key Hotel & Villas	Key West, FL	2013	148
Washington D.C.	The Ritz-Carlton, Georgetown	Georgetown, DC	2014	86
	The St. Gregory Hotel, Dupont Circle	Washington, DC	2014	155
	The Capitol Hill Hotel	Washington, DC	2007	153
	Hilton Garden Inn M Street	Washington, DC	2014	238
	Hampton Inn Washington, D.C.	Washington, DC	2005	228
	Annapolis Waterfront Hotel	Annapolis, MD (1)	1968	150
		TOTAL ROOMS		6,219

(1) Our interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreement. These ground lease agreements typically have initial terms of 99 years and all have a remaining term of at least 45 years.

The following table sets forth certain information with respect to the 9 hotels we owned through unconsolidated joint ventures with third parties as of December 31, 2018.

Market	Name	Location	Year Opened	Number of Rooms	HHLP Ownership in Asset	
Boston	Courtyard	South Boston, MA (1)	2005	164	50.0	%
	Holiday Inn Express	South Boston, MA (1)	1998	174	50.0	%
NYC Urban	Hampton Inn Manhattan/ Times Square South	Times Square, New York, NY	2009	184	31.2	%
	Hampton Inn Manhattan- Chelsea	Chelsea/Manhattan, New York, NY	2003	144	31.2	%
	Hampton Inn Manhattan- Madison Sqaure Garden	Herald Square, New York, NY	2005	136	31.2	%
	Holiday Inn New York City- Wall Street	Wall Street, New York, NY	2010	113	31.2	%
	Holiday Inn Express New York City Times Sqaure	Times Square, New York, NY	2009	210	31.2	%
	Holiday Inn Express Wall Street	Water Street, New York, NY	2010	112	31.2	%
	Candlewood Suites New York City- Times Square	Times Square, New York, NY	2009	188	31.2	%
		TOTAL ROOMS		1,237		

(1) The joint ventures interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreements. These ground lease agreements typically have

terms of 60 years and all have a remaining term of at least 44 years.

Item 3. Legal Proceedings

We are not presently subject to any material litigation nor, to our knowledge, is any other 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 business or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common shares trade on the New York Stock Exchange under the symbol "HT."

SHAREHOLDER INFORMATION

At December 31, 2018 we had approximately 126 shareholders of record of our common shares. Common Units (which are redeemable by holders for cash or, at our option, for common shares on a one for one basis, subject to certain limitations) were held by approximately 32 entities and persons, including our company.

Our Declaration of Trust, subject to certain exceptions, provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.9% of the number of outstanding common shares of any class or series of common shares or the number of outstanding preferred shares of any class or series of preferred shares. For this purpose, a person includes a "group" and a "beneficial owner" as those terms are used for purposes of Section 13(d)(3) of the Exchange Act. Any transfer of common or preferred shares that would result in any person owning, directly or indirectly, common or preferred shares in excess of the ownership limitation, result in the common and preferred shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), result in our being "closely held" within the meaning of Section 856(h) of the Code, or cause us to own, actually or constructively, 10% or more of the ownership interests in a tenant (other than a TRS) of our or our operating partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, will be null and void, and the intended transferee will acquire no rights in such common or preferred shares.

Any person who acquires or attempts to acquire common or preferred shares in violation of the foregoing restrictions, or any person who owned common or preferred shares that were transferred to a trust, will be required to give written notice immediately to us of such event and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

In addition, our trustees, upon receipt of advice of counsel or other evidence satisfactory to the trustees, in their sole and absolute discretion, may, in their sole and absolute discretion, exempt a person from the ownership limitation under certain circumstances. The foregoing restrictions continue to apply until the trustees determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT and there is an affirmative vote of two-thirds of the number of common and preferred shares entitled to vote on such matter at a regular or special meeting of our shareholders.

All certificates representing common or preferred shares bear a legend referring to the restrictions described above. The restrictions on ownership and transfer described above could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of some, or a majority, of our common shares might receive a premium for their shares over the then-prevailing market price or which such holders might believe to be otherwise in their best interest.

EQUITY COMPENSATION PLAN

See Part III, Item 12, for a description of securities authorized for issuance under our Amended and Restated 2012 Equity Incentive Plan.

DISTRIBUTION INFORMATION

Future distributions, if any, will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on the profitability and cashflows of our hotels to generate sufficient cash flow for distributions. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2013 and ending December 31, 2018, with the yearly changes in the Standard & Poor's 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REIT Index for the same period, assuming a base share price of $100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.

	2013	2014	2015	2016	2017	2018
Hersha Hospitality Trust	$100.00	$131.43	$106.53	$110.19	$95.32	$101.71
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Russell 2000	100.00	104.90	100.27	121.60	139.39	124.02
MSCI US REIT Index	100.00	130.40	133.69	145.21	152.66	145.78
SNL Hotel REIT Index	100.00	131.99	102.11	126.55	134.49	116.38

Unregistered Sales of Equity Securities and Use of Proceeds
A summary of our common share repurchases during the year ended December 31, 2018 is set forth in the table below. All such common shares were repurchased pursuant to open market transactions.
In December 2017, our Board of Trustees authorized a share repurchase program which allowed us to repurchase from time to time up to an aggregate of $100 million of our outstanding common shares. The program commenced on January 1, 2018 and expired on December 31, 2018.
In December 2018, our Board of Trustees authorized a new share repurchase program which allows us to repurchase from time to time up to an aggregate of $50 million of our outstanding common shares. The new program commenced on January 1, 2019 and will expire on December 31, 2019.
Issuer Purchases of Common Shares

Period	Total Number of Shares Purchased	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 (in thousands) (1)
January 1 to January 31, 2018	—	$ —	—	$ 100,000
February 1 to February 28, 2018	286,527	17.08	286,527	95,107
March 1 to March 31, 2018	349,063	16.98	635,590	89,179
April 1 to April 30, 2018	—	—	—	89,179
May 1 to May 31, 2018	—	—	—	89,179
June 1 to June 30, 2018	—	—	—	89,179
July 1 to July 31, 2018	—	—	—	89,179
August 1 to August 31, 2018	—	—	—	89,179
September 1 to September 30, 2018	—	—	—	89,179
October 1 to October 31, 2018	—	—	—	89,179
November 1 to November 30, 2018	—	—	—	89,179
December 1 to December 31, 2018	—	—	—	89,179

(1) This amount represents the approximate dollar value of shares able to be repurchased under the plan that expired on December 31, 2018. As discussed above, a new $50 million share repurchase plan was authorized by our Board of Trustees, commencing January 1, 2019.

Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. As a result of the early adoption on January 1, 2014 of ASU Update No. 2014-08, we do not expect to classify most of our hotel dispositions as discontinued operations. For purposes of this table below, the operating results of certain real estate assets which have been sold prior to the adoption of ASU Update No. 2014-08 are included in discontinued operations for all periods presented.

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except share and per share data)

	2018	2017	2016	2015	2014
Revenue:					
Hotel Operating Revenues	$493,678	$497,140	$466,370	$470,272	$417,226
Other Revenues	1,385	1,097	259	113	180
Total Revenue	495,063	498,237	466,629	470,385	417,406
Operating Expenses:					
Hotel Operating Expenses	298,849	295,050	262,956	254,313	227,324
Hotel Ground Rent	4,228	3,460	3,600	3,137	2,433
Real Estate and Personal Property Taxes and Property Insurance	35,194	32,300	32,157	34,518	30,342
General and Administrative (including Share Based Payments of $11,436, $9,286, $8,048, $6,523, $6,028)	26,881	23,553	24,444	20,515	20,363
Acquisition and Terminated Transaction Costs	29	2,203	2,560	1,119	2,472
Loss from Impairment of Assets	—	4,082	—	—	—
Depreciation and Amortization	89,831	83,752	75,390	74,390	69,167
(Gain) Loss in Excess of Estimated Insurance Recoveries	(12,649)	4,268	—	—	(4,604)
Contingent Consideration	—	—	—	—	2,000
Total Operating Expenses	442,363	448,668	401,107	387,992	349,497
Operating Income	52,700	49,569	65,522	82,393	67,909
Interest Income	114	271	362	193	805
Interest Expense	(48,491)	(42,662)	(44,352)	(43,557)	(43,357)
Other Expense	(901)	(771)	(961)	(367)	(485)
Gain on Disposition of Hotel Properties	4,148	90,350	115,839	—	7,195
Gain on Hotel Acquisitions, net	—	—	—	—	12,667
Development Loan Recovery	—	—	—	—	22,494
Lease Buyout	—	268	(16,831)	—	—
Loss on Debt Extinguishment	(22)	(590)	(1,187)	(561)	(670)
Income before Income (Loss) from Unconsolidated Joint Venture Investments and Discontinued Operations	7,548	96,435	118,392	38,101	66,558
Income (Loss) from Unconsolidated Joint Ventures	1,084	(2,473)	(1,823)	965	693
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	—	16,240	—	—	—

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except share and per share data)

	2018	2017	2016	2015	2014
Income (Loss) from Unconsolidated Joint Venture Investments	1,084	13,767	(1,823)	965	693
Income Before Income Taxes	8,632	110,202	116,569	39,066	67,251
Income Tax (Expense) Benefit	(267)	(5,262)	4,888	3,141	2,685
Income from Continuing Operations	8,365	104,940	121,457	42,207	69,936
Discontinued Operations:					
Loss on Disposition of Hotel Properties	—	—	—	—	(128)
Impairment of Assets Held for Sale	—	—	—	—	(1,800)
Income from Discontinued Operations	—	—	—	—	263
Loss from Discontinued Operations	—	—	—	—	(1,665)
Net Income	8,365	104,940	121,457	42,207	68,271
Loss (Income) Allocated to Noncontrolling Interests- Common Units	916	(5,072)	(4,477)	(411)	(1,016)
Loss Allocated to Noncontrolling Interests- Consolidated Joint Ventures	709	—	—	—	—
Preferred Distributions	(24,174)	(24,169)	(17,380)	(14,356)	(14,356)
Extinguishment of Issuance Costs Upon Redemption of Preferred Shares	—	—	(4,021)	—	—
Net (Loss) Income applicable to Common Shareholders	(14,184)	75,699	$95,579	$27,440	$52,899
Basic (Loss) Income from Continuing Operations applicable to Common Shareholders	$(0.38)	$1.82	$2.21	$0.56	$1.08
Diluted (Loss) Income from Continuing Operations applicable to Common Shareholders (1)	(0.38)	1.79	2.18	0.56	1.07
Dividends declared per Common Share	1.12	1.12	1.32	1.12	1.04
Balance Sheet Data					
Net investment in hotel properties	$2,026,659	$2,009,572	$1,767,570	$1,831,119	$1,745,483
Assets Held for Sale	—	15,987	98,473	—	—
Noncontrolling Interests Common Units	62,010	54,286	44,321	31,876	29,082
Noncontrolling Interests Consolidated Variable Interest Entity	—	—	—	(1,760)	(1,075)
Shareholder's equity	892,805	833,868	835,418	678,039	829,381
Total assets	2,138,630	2,138,336	2,155,536	1,962,649	1,855,539
Total debt	1,093,031	1,093,013	1,051,899	1,169,964	918,923
Liabilities related to Assets Held for Sale	—	—	51,428	—	—
Other Data					
Net cash provided by operating activities	$114,822	$107,123	$81,567	$121,831	$111,622
Net cash (used in) provided by investing activities	$(17,965)	$(99,663)	$144,704	$(141,660)	$(188,229)
Net cash (used in) provided by financing activities	$(81,660)	$(176,511)	$(78,793)	$28,372	$53,072
Weighted average shares outstanding					
Basic	39,383,763	41,423,804	42,957,199	47,786,811	49,777,302
Diluted (1)	39,383,763	42,056,431	43,530,731	48,369,658	50,307,506

(1) Income allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these amounts in the numerator and denominator would have no impact.

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

Certain statements appearing in this Item 7 are forward-looking statements within the meaning of the federal securities laws. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. See “Cautionary Factors That May Affect Future Results” for additional information regarding our forward-looking statements.

BACKGROUND

As of December 31, 2018, we owned interests in 48 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles, Miami and select markets on the West Coast including 38 wholly-owned hotels, 1 hotel through our interest in a consolidated joint venture, and interests in 9 hotels owned through unconsolidated joint ventures. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor, as defined under the REIT rules, to manage the hotels. As of December 31, 2018, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. Each TRS directly receives all revenue from, and funds all expenses relating to, hotel operations of the hotels that it leases. Each TRS is also subject to income tax on its earnings.

OVERVIEW

We believe the repositioning of our portfolio better enables us to capitalize on further improvement in lodging fundamentals. During 2018, we continued to see improvements in ADR and RevPAR, led by hotels in most of our key markets, with our New York City properties showing the strongest outperformance. Despite our improved revenue fundamentals, operating margins remained relatively flat for 2018 as weakness in the Washington D.C. market offset some of the gains we realized in our overall performance. While we continue to explore acquisition opportunities in coastal gateway urban centers and select resort destinations, we remain focused on operating efficiencies within our portfolio and asset repositioning opportunities to drive earnings and cash flow growth over the next year to de-lever our balance sheet. In addition, we will continue to look for attractive opportunities to divest certain properties at favorable prices, potentially redeploying capital in markets the offer higher growth, reducing our leverage, or opportunistically repurchasing our common shares.

We expect continued stability and improvement in consumer and commercial spending and lodging demand in our markets during 2019. During the third quarter of 2017 we experienced business interruptions for our hotels located in South Florida due to Hurricane Irma. The Courtyard Cadillac Hotel in Miami, FL closed following the storm due to the hurricane damage, and as a result, we accelerated our plan to convert this hotel to an Autograph Collection. This hotel remained closed until August 2018, at which time it reopened as the Cadillac Hotel and Beach Club, an Autograph Collection hotel. The Parrot Key Hotel & Villas in Key West, FL had been closed for repairs and renovations since September 2017, and was fully operational beginning in December 2018. The remainder of our South Florida hotels were repaired and fully operational during the fourth quarter of 2017. As a result of Hurricane Irma, for the year ended December 31, 2017, we recorded an impairment loss of $4.3 million which represents our estimate of property damage and remediation costs incurred up to our insurance policy deductibles. During 2018, we received a total of $24,246 in net insurance proceeds, which resulted in a net gain of $12,649 after applying proceeds to receivables and other costs.

Industry wide Revenue per Available Room ("RevPAR") continued growing during 2018, as the U.S. economy expanded by approximately 3% for 2018. The economic outlook for 2019 shows the U.S. economy growing at a slower pace than 2018 driven by lower overall global growth and rising political uncertainty. However, the manner in which the economy will continue to grow, if at all, is not predictable and we have no way of predicting how any new government policies will affect the markets in which we operate or the tourism industry in general. In addition, the availability of hotel-level financing for the acquisition of new hotels is not within our control. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Factors that might contribute to less than anticipated performance include those described under the heading "Item 1A. Risk Factors" and other documents that we may file with the SEC in the future.

SUMMARY OF OPERATING RESULTS

The following tables outline operating results for the Company's portfolio of wholly owned hotels and those owned through joint venture interests that are consolidated in our financial statements for the three years ended December 31, 2018, 2017 and 2016.

We define a comparable consolidated hotel as one that is currently consolidated, that we have owned in whole or in part for the entirety of the periods being presented, and is deemed fully operational. Based on this definition, for the years ended December 31, 2018 and 2017, there are 37 and 38 comparable consolidated hotels, respectively. The comparable key hotel operating statistics presented in the table below have been computed using pro forma methodology to compute the operating results for the portion of time prior to our ownership of hotels purchased during the comparable period for the year ended December 31, 2018 compared to the year ended December 31, 2017, and the year ended December 31, 2017 compared to the year ended December 31, 2016 for our comparable hotels.

For the comparison of December 31, 2018 to December 31, 2017, comparable hotel operating results contain results from our consolidated hotels owned as of December 31, 2018, excluding: (1) The Courtyard Cadillac Hotel and the The Parrot Key Hotel & Villas because both hotels were not been operating for the fourth quarter of 2017 and a significant portion of 2018 while the damage from Hurricane Irma was repaired; and (2) the results of all hotels sold during the years ended December 31, 2018 and 2017. The comparison of December 31, 2018 to December 31, 2017 includes results as reported by the prior owners for the following hotels acquired during 2018 and 2017:

- The Ritz-Carlton –Coconut Grove, FL (acquired 2/1/2017)
- The Pan Pacific Hotel – Seattle, WA (acquired 2/21/2017)
- The Westin – Philadelphia, PA (acquired 6/29/2017)
- The Annapolis Waterfront Hotel – Annapolis, MD (acquired 3/28/18)

For the comparison of December 31, 2017 to December 31, 2016, comparable hotel operating results contain results from our consolidated hotels owned as of December 31, 2017, excluding: (1) The Courtyard Cadillac Hotel and the The Parrot Key Hotel & Villas because both hotels have not been operating for the fourth quarter of 2017 while the damage from Hurricane Irma was repaired; (2) The Hyatt House Gaithersburg which ceased operations during December 2017 in anticipation of a sale of the property during the first quarter of 2018; and (3) the results of all hotels sold during the years ended December 31, 2017 and 2016. The comparison of December 31, 2017 to December 31, 2016 includes results as reported by the prior owners for the following hotels acquired during 2017 and 2016:

- Sanctuary Resort – Monterey, CA (acquired 1/28/2016)
- Hilton Garden Inn M Street – Washington, DC (acquired 3/9/2016)
- The Envoy Hotel – Boston, MA (acquired 7/21/2016)
- Courtyard – Sunnyvale, CA (acquired 10/20/2016)
- The Ambrose – Santa Monica, CA (acquired 12/1/2016)
- Mystic Marriott Hotel & Spa – Groton, CT (acquired 1/3/2017)
- The Ritz-Carlton – Coconut Grove, FL (acquired 2/1/2017)
- The Pan Pacific Hotel – Seattle, WA (acquired 2/21/2017)
- Philadelphia Westin – Philadelphia, PA (acquired 6/29/2017)

COMPARABLE CONSOLIDATED HOTELS:

	(Includes 37 hotels in both years)			(Includes 38 hotels in both years)		
	Year Ended 2018	Year Ended 2017	2018 vs. 2017 % Variance	Year Ended 2017	Year Ended 2016	2017 vs. 2016 % Variance
	(dollars in thousands except ADR and RevPAR)					
Occupancy	82.3 %	83.1 %	-80 bps	83.9 %	82.6 %	125 bps
Average Daily Rate (ADR)	$227.61	$221.58	2.7%	$219.70	$218.08	0.7%
Revenue Per Available Room (RevPAR)	$187.35	$184.15	1.7%	$184.23	$180.14	2.3%
Room Revenues	$389,067	$382,120	1.8%	$383,311	$376,574	1.8%
Hotel Operating Revenues	$483,037	$469,714	2.8%	$470,287	$459,489	2.4%

RevPAR for the year ended December 31, 2018 increased 1.7% for our comparable consolidated hotels when compared to 2017. The 1.7% increase in 2018 is down slightly from the 2.3% comparable hotel growth experienced in 2017. The Company experienced stronger RevPAR growth from comparable consolidated hotels located in South Florida, Boston, and on the West Coast, which experienced RevPAR growth of 5.2%, 3.5%, and 4.6%, respectively, for 2018 when compared to 2017. The Company also achieved RevPAR growth of 5.6% for our New York City hotels for the year ended December 31, 2018, which continues to outperform relative to market results for New York City.

COMPARABLE UNCONSOLIDATED JOINT VENTURES:

	(Includes 9 hotels in both years)			(Includes 9 hotels in both years)		
	Year Ended 2018	Year Ended 2017	2018 vs. 2017 % Variance	Year Ended 2017	Year Ended 2016	2017 vs. 2016 % Variance
	(dollars in thousands except ADR and RevPAR)					
Occupancy	92.8 %	90.5 %	228 bps	90.5 %	89.5 %	102 bps
Average Daily Rate (ADR)	$207.68	$206.21	0.7%	$206.21	$206.45	-0.1%
Revenue Per Available Room (RevPAR)	$192.69	$186.63	3.3%	$186.63	$184.72	1.0%
Room Revenues	$98,123	$93,254	5.2%	$93,254	$92,557	0.8%
Total Revenues	$100,438	$95,219	5.5%	$95,219	$95,239	—%

The majority of our occupancy results were the result of the Cindat properties, which experienced occupancy growth of 215 basis points for the year ended December 31, 2018. The properties within our unconsolidated joint ventures, on a comparable basis, generated 3.3% and 1.0% RevPAR growth for the years ended December 31, 2018 and 2017, respectively. The increases in RevPAR for 2018 are driven by hotel properties located in New York City within the Cindat joint venture, which had increased RevPAR growth of 4.3% for the year ended December 31, 2018 when compared to the same period in 2017. The growth in RevPAR can be attributed to the completion of property renovations during 2017, and a change in our revenue management and group mix strategies for the properties.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2018 TO DECEMBER 31, 2017
(dollars in thousands)
Revenue
Our total revenues for the years ended December 31, 2018 and 2017 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99% of total revenues for the years ended December 31, 2018 and 2017. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture or other interests that are consolidated in our financial statements. Hotel operating revenues decreased $3,462 or 0.70%, to $493,678 for the year ended December 31, 2018 compared to $497,140 for the same period in 2017. This decrease in hotel operating revenues can be explained by the following table:

Hotel Operating Revenue for the year ended December 31, 2017		$497,140
Incremental Revenue Additions from Acquisitions (1/1/2017 - 12/31/2018):		
The Ritz-Carlton – Coconut Grove, FL	$2,401	
The Pan Pacific Hotel- Seattle, WA	$2,462	
The Westin- Philadelphia, PA	$15,876	
The Annapolis Waterfront Hotel- Annapolis, MD	$9,573	
Total Incremental Revenue from Acquisitions		30,312
Revenue Reductions from Dispositions (1/1/2017 - 12/31/2018):		
Residence Inn - Greenbelt, MD	$(35)	
Courtyard - Alexandria, VA	$(17)	
Hyatt House - Scottsdale, AZ	$(4,346)	
Hyatt House - Pleasant Hill, CA	$(3,511)	
Hyatt House - Pleasanton, CA	$(3,740)	
Holiday Inn Express - Chester, NY	$(2,579)	
Hyatt House - Gaithersburg, MD	$(4,201)	
Hampton Inn Pearl Street - New York, NY	$(5,124)	
Residence Inn, Tysons Corner, VA	$(626)	
Total Revenue Reductions from Dispositions		(24,179)
Revenue Reduction due to Hurricane Impacted Hotel Closures		(18,322)
Change in Hotel Operating Revenue for Remaining Hotels		8,727
Hotel Operating Revenue for the year ended December 31, 2018		$493,678

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a $9,595 decrease in hotel operating revenue. This decrease is attributable to the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas, both of which were closed for a significant portion of 2018. The Cadillac Hotel and Beach Club was damaged during Hurricane Irma in 2017 while it was branded as a Courtyard by Marriott. As a result of the hurricane damage, we accelerated our plan to convert this hotel to an Autograph Collection hotel causing it to be closed until the end of the third quarter of 2018. The Parrot Key Hotel & Villas incurred significant damage during Hurricane Irma in 2017, remaining closed for repairs until it re-opened during the fourth quarter of 2018. Collectively, these two hotels accounted for a decrease in hotel operating revenue for the year ended December 31, 2018 of $18,322. The remaining hotels in our portfolio contributed a net increase in revenue of $8,727 for the year ended December 31, 2018 when compared to 2017.

Expenses

Total hotel operating expenses increased 1.29% to approximately $298,849 for the year ended December 31, 2018 from $295,050 for the year ended December 31, 2017. This increase in hotel operating expenses can be explained by the following table:

Hotel Operating Expenses for the year ended December 31, 2017		$295,050
Incremental Expense Additions from Acquisitions (1/1/2017 - 12/31/2018):		
The Ritz-Carlton - Coconut Grove, FL	$2,374	
The Pan Pacific Hotel - Seattle, WA	$1,612	
The Westin - Philadelphia, PA	$9,038	
The Annapolis Waterfront Hotel- Annapolis, MD	$4,594	
Total Incremental Expenses from Acquisitions		17,618
Expense Reductions from Dispositions (1/1/2017 - 12/31/2018):		
Residence Inn - Greenbelt, MD	$(21)	
Courtyard - Alexandria, VA	$(48)	
Hyatt House - Scottsdale, AZ	$(2,086)	
Hyatt House - Pleasant Hill, CA	$(1,807)	
Hyatt House - Pleasanton, CA	$(1,862)	
Holiday Inn Express - Chester, NY	$(1,755)	
Hyatt House - Gaithersburg, MD	$(3,053)	
Hampton Inn Pearl Street - New York, NY	$(2,639)	
Residence Inn, Tysons Corner, VA	$(373)	
Total Expense Reductions from Dispositions		(13,644)
Expense Reductions due to Hurricane Impacted Hotel Closures		(4,508)
Change in Hotel Operating Expenses for Remaining Hotels		4,333
Hotel Operating Expenses for the year ended December 31, 2018		$298,849

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a $175 decrease in hotel operating expenses. This decrease is attributable to the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas, which collectively accounted for a decrease in hotel operating expenses for the year ended December 31, 2018 of $4,508, due to their respective closures related to Hurricane Irma. The remaining hotels in our portfolio contributed a net increase in expenses of $4,333 for the year ended December 31, 2018 when compared to 2017.

Depreciation and amortization increased by 7.3%, or $6,079, to $89,831 for the year ended December 31, 2018 from $83,752 for the year ended December 31, 2017. The increase was a result of depreciation and amortization recorded on the hotels recently acquired or newly renovated. Real estate and personal property tax and property insurance increased $2,894, or 9.0%, for the year ended December 31, 2018 when compared to the same period in 2017. The main causes of this increase can be attributed to the following: (1) an approximate $650 increase in insurance costs related to our hotels located in South Florida; (2) a $1,100 increase in real estate and personal property tax related to hotels acquired since January 1, 2017; (3) a $1,184 decrease in real estate and personal property tax related to hotels sold since January 1, 2017; and (4) an increase of $1,972 related to property value reassessments and stabilization. The remaining increase is due to normal operating business activity. We typically experience increases in tax assessments and tax rates as the economy improves which are offset by reductions of expense resulting from successful real estate tax appeals.

43

General and administrative expense increased by approximately $3,328 to $26,881 for the year ended December 31, 2018 from $23,553 for the year ended December 31, 2017. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Expense related to share based compensation increased $2,150 when comparing the year ended December 31, 2018 to the same period in 2017. This increase in share based compensation expense is primarily related to the election by our executive officers to receive share awards in lieu of cash bonuses earned during the year ended December 31, 2018. Please refer to "Note 8 – Share Based Payments" of the notes to the consolidated financial statements for more information about our stock based compensation.

Prior to January 1, 2018, acquisition and terminated deal costs typically consisted of transfer taxes, legal fees, and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Based on the updated accounting literature that defines purchases of businesses versus the purchase of assets, the majority of our acquisitions subsequent to 2017 will be viewed as the purchase of assets, which will result in the acquisition costs related to asset purchases being included in the purchase price of the asset. As a result, the expenses recorded to this line item during 2018 of $29 related to terminated deal costs, which is not comparable to the $2,203 of expenses recorded during 2017, which mostly related to hotel acquisitions.

Gains / Losses on Insurance Recoveries

During the year ended December 31, 2018, the Company recorded insurance recoveries in excess of property losses in the amount of $12,649, while we recognized a loss in excess of insurance recoveries of $4,268 during the comparable period in 2017. During the year ended December 31, 2018 the Company received a total of $25,295 in insurance proceeds, which was offset by a total of $12,646 in funds applied to previously recorded insurance receivables, additional remediation expenses, and expenses due to franchisors based on business interruption settlements.

Operating Income

Operating income for the year ended December 31, 2018 was $52,700 compared to operating income of $49,569 during the same period in 2017. Operating income was negatively impacted by decreased hotel operating revenue, increased costs in areas such as hotel operating expenses, real estate taxes and property insurance, depreciation and amortization,and general and administrative expenses. These items negatively affecting operating income were offset by gains from insurance recoveries and decreases in acquisition and terminated transaction costs. Additionally, the year ended December 31, 2017 contained a loss on impairment of assets of $4,082 while 2018 contained no such impairment loss.

Interest Expense

Interest expense increased $5,829 from $42,662 for the year ended December 31, 2017 to $48,491 for year ended December 31, 2018. The balance of our borrowings, excluding discounts and deferred costs, have increased by $2,289 in total between December 31, 2017 and December 31, 2018, as we originated a mortgage on the Annapolis Waterfront Hotel of $28,000 which was partially offset by mortgage debt paydowns of $1,611 and net paydowns on our Credit Facility of $24,100 since December 31, 2017. The increase in interest expense when comparing the year ended December 31, 2018 to the corresponding period in 2017 can be explained by: (1) an increase in interest expense from the credit facility which contributed $4,011 incrementally; (2) an increase in interest expense from our notes payable due to variable rates increasing, resulting in an increase in expense of $511; and (3) the new mortgage debt on the Annapolis Waterfront Hotel that contributed $1,018 in expense during 2018. The remaining increase in interest expense is due to the increase in interest rates on our unhedged variable rate mortgages.

Gain on Disposition of Hotel Properties

During the year ended December 31, 2018, the Company recorded a gain of $4,148 related to the sales of the Hyatt House, Gaithersburg, MD, the Hampton Inn Seaport, New York, NY, and the Residence Inn, Tysons Corner, VA. This is compared to a gain on sale recognized during the year ended December 31, 2017 of $90,350 related to the sales of the Residence Inn, Greenbelt, MD, Courtyard, Alexandria, VA, Hyatt House, Scottsdale, AZ, the Hyatt House, Pleasanton, CA, Hyatt House, Pleasant Hill, CA, and Holiday Inn Express, Chester, NY.

Unconsolidated Joint Venture Investments

The income (loss) from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures increased by $3,557 to income of $1,084 for the year ended December 31, 2018 compared to a loss of $2,473 during the same period in 2017, primarily due to the loss we recognized on our equity interest in the Cindat joint venture during 2017, for which we recognized no income or losses during 2018.

During the year ended December 31, 2017, we recognized a $16,240 gain on the remeasurement of investment in unconsolidated joint ventures related to our transfer and redemption of our joint venture interest in Mystic Partners, LLC. In exchange for our interest in the partnership, we received 100% ownership of the Mystic Marriott Hotel & Spa and $11,623 in cash proceeds. We recognized no similar gain in 2018.

Income Tax Expense

During the year ended December 31, 2018, the Company recorded an income tax expense of $267 compared to $5,262 for the year ended December 31, 2017. The large decrease in income tax expense is partially attributable to the change in the statutory tax rate applicable to the Company as a result of the recent changes in tax regulations, the Tax Cuts & Jobs Act, which reduced our federal tax rate from 34% in 2017 to 21% for periods thereafter. This decrease in the tax rate required the Company to remeasure our net deferred tax asset resulting in increased income tax expense of $4,601 that was recognized during the year ended December 31, 2017 with no comparable adjustment in 2018.

Net (Loss) Income Applicable to Common Shareholders

Net loss applicable to common shareholders for the year ended December 31, 2018 was $14,184 compared to income of $75,699 during the same period in 2017. This decrease in net income was primarily caused by: (1) a lower net gain on hotel dispositions of $86,202; (2) decreased income from unconsolidated joint ventures of $12,683; and (3) increased interest expense of $5,829. Partially offsetting these items were: (1) a decrease of $4,995 in income tax expense; and (2) $6,697 in additional loss allocated to minority interest holders.

Comprehensive (Loss) Income Applicable to Common Shareholders

Comprehensive loss applicable to common shareholders for the year ended December 31, 2018 was $13,706 compared to comprehensive income of $78,075 for the same period in 2017. This change can be attributed to the items affecting Net Income Applicable to Common Shareholders as more fully described above. For the year ended December 31, 2018, we recorded comprehensive income of $8,881 compared to $107,476 of comprehensive income for the year ended December 31, 2017.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2017 TO DECEMBER 31, 2016
(dollars in thousands)
Revenue
Our total revenues for the years ended December 31, 2017 and 2016 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99% of total revenues for the years ended December 31, 2017 and 2016. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture or other interests that are consolidated in our financial statements. Hotel operating revenues increased $30,770 or 6.6%, to $497,140 for the year ended December 31, 2017 compared to $466,370 for the same period in 2016. This increase in hotel operating revenues can be explained by the following table:

Hotel Operating Revenue for the year ended December 31, 2016		$466,370
Incremental Revenue Additions from Acquisitions (1/1/2016 - 12/31/2017):		
Sanctuary Resort – Monterey, CA	$1,119	
Hilton Garden Inn M Street – Washington, DC	2,640	
The Envoy - Boston, MA	11,624	
Courtyard - Sunnyvale, CA	9,094	
The Ambrose - Santa Monica, CA	6,775	
Mystic Marriott Hotel & Spa - Groton, CT	21,248	
The Ritz-Carlton - Coconut Grove, FL	13,376	
The Pan Pacific Hotel - Seattle, WA	13,127	
The Westin - Philadelphia	14,382	
Total Incremental Revenue from Acquisitions		93,385
Revenue Reductions from Dispositions (1/1/2016 - 12/31/2017):		
Cindat Hotel Portfolio (7 hotels)	(18,109)	
Hyatt Place - King of Prussia, PA	(1,460)	
Hawthorn Suites - Franklin, MA	(2,117)	
Residence Inn - Framingham, MA	(4,770)	
Residence Inn - Norwood, MA	(3,669)	
Residence Inn - Greenbelt, MD	(6,394)	
Courtyard - Alexandria, VA	(7,414)	
Hyatt House - Scottsdale, AZ	(3,211)	
Hyatt House - Pleasant Hill, CA	(5,059)	
Hyatt House - Pleasanton, CA	(4,806)	
Holiday Inn Express - Chester, NY	(352)	
Total Revenue Reductions from Dispositions		(57,361)
Revenue Reduction due to Hurricane Impacted Hotel Closures		(7,638)
Change in Hotel Operating Revenue for Remaining Hotels		2,384
Hotel Operating Revenue for the year ended December 31, 2017		$497,140

Expenses
Total hotel operating expenses, including room, food and beverage and other operating department expenses increased 12.2% to approximately $295,050 for the year ended December 31, 2017 from $262,956 for the year ended December 31, 2016. This increase in operating expenses is primarily attributable to hotel properties acquired in our

existing portfolio, offset by a decrease in hotel operating expenses which were not recognized in the year ended December 31, 2017 due to hotel dispositions. The increase in hotel operating expenses can be explained by the following table:

Hotel Operating Expenses for the year ended December 31 2016		$262,956
Incremental Expense Additions from Acquisitions (1/1/2016 - 12/31/2017):		
Sanctuary Resort – Monterey, CA	$1,559	
Hilton Garden Inn M Street – Washington, DC	1,341	
The Envoy - Boston, MA	6,870	
Courtyard - Sunnyvale, CA	3,996	
The Ambrose - Santa Monica, CA	3,386	
Mystic Marriott Hotel & Spa - Groton, CT	15,289	
The Ritz-Carlton - Coconut Grove, FL	11,670	
The Pan Pacific Hotel - Seattle, WA	9,502	
The Westin - Philadelphia	8,502	
Total Incremental Expenses from Acquisitions		62,115
Expense Reductions from Dispositions (1/1/2016 - 12/31/2017):		
Cindat Hotel Portfolio (7 hotels)	(10,901)	
Hyatt Place - King of Prussia, PA	(1,155)	
Hawthorn Suites - Franklin, MA	(1,279)	
Residence Inn - Framingham, MA	(2,420)	
Residence Inn - Norwood, MA	(1,811)	
Residence Inn - Greenbelt, MD	(2,994)	
Courtyard - Alexandria, VA	(4,914)	
Hyatt House - Scottsdale, AZ	(1,894)	
Hyatt House - Pleasant Hill, CA	(2,402)	
Hyatt House - Pleasanton, CA	(2,215)	
Holiday Inn Express - Chester, NY	(157)	
Total Expense Reductions from Dispositions		(32,142)
Expense Reductions due to Hurricane Impacted Hotel Closures		(3,401)
Change in Hotel Operating Expenses for Remaining Hotels		5,522
Hotel Operating Expenses for the year ended December 31, 2017		$295,050

Depreciation and amortization increased by 11.1%, or $8,362, to $83,752 for the year ended December 31, 2017 from $75,390 for the year ended December 31, 2016. The increase was a result of depreciation and amortization recorded on the hotels recently acquired. Real estate and personal property tax and property insurance increased $143, or 0.4%, for the year ended December 31, 2017 when compared to the same period in 2016. We typically experience increases in tax assessments and tax rates as the economy improves which are offset by reductions of expense resulting from successful real estate tax appeals. Additionally, the Company recorded a separate $4,082 impairment charge during the year ended December 31, 2017 related to one hotel as a result of an analysis that indicated that the carrying amount of the asset exceeded its fair value by an amount that was determined unrecoverable based on our estimated hold period for the property. This hotel was subsequently sold during 2018 with no additional impairment charge.
General and administrative expense decreased by approximately $891 to $23,553 for the year ended December 31, 2017 from $24,444 for the year ended December 31, 2016. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Expense related to share based compensation increased $1,238 when comparing the year ended December 31, 2017 to the same period in 2016. This increase in share based compensation expense is primarily related to the issuance of share awards under the 2014 Multi-Year LTIP during the year ended December 31, 2017 as

the performance period ended December 31, 2016. Please refer to “Note 8 – Share Based Payments” of the notes to the consolidated financial statements for more information about our stock based compensation.

Amounts recorded on our consolidated statement of operations for acquisition and terminated transaction costs will fluctuate from period to period based on our acquisition activities. Acquisition and terminated transaction costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Acquisition and terminated transaction costs decreased $357 from $2,560 for the year ended December 31, 2016 to $2,203 for the same period in 2017. The costs incurred in 2017 were primarily related to our acquisition of the Mystic Marriott Hotel & Spa, Groton, CT, the Ritz-Carlton, Coconut Grove, FL, the Pan Pacific Hotel, Seattle, WA, and the Philadelphia Westin, Philadelphia, PA while the costs incurred in 2016 were primarily related to our acquisition of the Sanctuary Beach Resort, Marina, CA, the Hilton Garden Inn M Street, Washington, DC, the Envoy Hotel, Boston, MA, the Courtyard by Marriott, Sunnyvale, CA and The Ambrose, Santa Monica, CA. Also included in acquisition and terminated transaction costs are charges related to transactions that were terminated during the period.

During the year ended December 31, 2017, the Company recorded a loss in excess of insurance recoveries of $4,268. This loss represents both the impairment loss and remediation costs, net of estimated insurance recoveries, associated with the damage to our hotel properties in South Florida caused by Hurricane Irma. As of December 31, 2017 the Company has recorded an insurance receivable of $10,024. Our current insurance policies also contain coverage for income lost due to business interruption from covered losses. Any recoveries obtained through business interruption coverage will be recorded as a gain at such time that the recovery is probable. The Company recorded $0 gain related to business interruption insurance coverage during the year ended December 31, 2017.

Operating Income

Operating income for the year ended December 31, 2017 was $49,569 compared to operating income of $65,522 during the same period in 2016. Operating income was negatively impacted by increased costs in areas such as hotel operating expenses, depreciation and amortization, property impairment, and losses in excess of insurance recoveries. These increases in operating costs were partially offset by an increase in hotel operating revenue and decreases in general and administrative expenses, and acquisition and terminated transaction costs.

Interest Expense

Interest expense decreased $1,690 from $44,352 for the year ended December 31, 2016 to $42,662 for the year ended December 31, 2017. The balance of our borrowings, excluding discounts and deferred costs, have decreased by $9,919 in total between December 31, 2016 and December 31, 2017, as we drew an additional $68,380 on our Credit Facility, which was more than offset by debt paydowns of $81,449 since December 31, 2016. The sale of properties with mortgage debt and the pay-off of other property-level debt during 2016 and 2017 resulted in a reduction of interest expense of $11,624 for the year ended December 31, 2017 compared to the corresponding period in 2016. This reduction in expense was partially offset by additional borrowings on the credit facility which contributed $6,733 incrementally to interest expense when comparing the year ended December 31, 2017 to the corresponding period in 2016.

Gain on Disposition of Hotel Properties

During the year ended December 31, 2017, the Company recorded a gain of $90,350 related to the sales of the Residence Inn, Greenbelt, MD, Courtyard, Alexandria, VA, Hyatt House, Scottsdale, AZ, the Hyatt House, Pleasanton, CA, Hyatt House, Pleasant Hill, CA, and Holiday Inn Express, Chester, NY. This is compared to a gain on sale recognized during the year ended December 31, 2016 of $115,839 related to the contribution of seven properties to the Cindat joint venture transaction and the sales of the Hyatt Place, King of Prussia, PA, Hawthorn Suites, Franklin, MA, Residence Inn, Framingham, MA, and Residence Inn, Norwood, MA.

Unconsolidated Joint Venture Investments

The loss from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Loss from our unconsolidated joint ventures increased by $650 to a loss of $2,473 for the year ended December 31, 2017 compared to a loss of $1,823 during the same period in 2016, primarily due to the loss we recognized on our equity interest in the Cindat joint venture. We recognized a $16,240 gain on the remeasurement of investment in unconsolidated joint ventures related to our transfer and redemption of our joint venture interest in Mystic Partners, LLC. In exchange for our interest in the partnership, we received 100% ownership of the Mystic Marriott Hotel & Spa and $11,623 in cash proceeds.

48

Income Tax (Expense) Benefit

During the year ended December 31, 2017 , the Company recorded an income tax expense of $5,262 compared to an income tax benefit of $4,888 for the year ended December 31, 2016. The large increase in income tax expense is partially attributable to the change in the statutory tax rate applicable to the Company as a result of the recent changes in tax regulations, the Tax Cuts & Jobs Act, which reduced our federal tax rate from 34% in 2017 to 21% for periods thereafter and the resulting revaluation of our deferred tax assets. The remaining increase in income tax expense is attributable to the improved operating results of the taxable REIT subsidiary. This decrease in the tax rate required the Company to remeasure our net deferred tax asset resulting in increased income tax expense of $4,601.

Net Income Applicable to Common Shareholders

Net income applicable to common shareholders for the year ended December 31, 2017 was $75,699 compared to income of $95,579 during the same period in 2016. This decrease in net income was primarily caused by a lower hotel operating margin of $15,953, an increase in income tax expense of $10,150, and a lower net gain on hotel dispositions of $25,489. Offsetting these items were: (1) a decrease of $1,690 in interest expense and (2) a $16,831 expense incurred during 2016 as result of a lease buyout of a restaurant at our Courtyard by Marriott, Miami, FL property made in conjunction with an overall property improvement and up-branding strategy that did not occur in 2017.

Comprehensive Income Applicable to Common Shareholders

Comprehensive income applicable to common shareholders for the year ended December 31, 2017 was $78,075 compared to comprehensive income of $97,328 for the same period in 2016. This change can be attributed to the items affecting Net Income Applicable to Common Shareholders as more fully described above. For the year ended December 31, 2017, we recorded comprehensive income of $107,476 compared to $123,296 of comprehensive income for the year ended December 31, 2016.

LIQUIDITY, CAPITAL RESOURCES, AND EQUITY OFFERINGS

(dollars in thousands, except share data)

Potential Sources of Capital

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

In addition, our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, nonrecourse financing arrangements. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that all covenants contained in the loan agreements securing hotel properties were met as of December 31, 2018. Future deterioration in market conditions could cause restrictions in our access to the cash flow of additional properties.

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

As of December 31, 2018, the outstanding balance under the First Term Loan was $207,000, under the Second Term Loan was $300,000, under the Third Term Loan was $193,900 and we had $10,000 outstanding under the Line of Credit. As of December 31, 2018, our remaining borrowing capacity under the Credit Facility, Second Term Loan and Third Term Loan was $145,399 which is based on certain operating metrics of unencumbered hotel properties designated as borrowing base assets. We intend to repay indebtedness incurred under the Credit Facility, Second Term Loan and Third Term Loan out of cash flow and from the proceeds of issuances of additional common and preferred shares and potentially other securities and from proceeds from dispositions.

We will continue to monitor our debt maturities to manage our liquidity needs. However, no assurances can be given that we will be successful in refinancing all or a portion of our future debt obligations due to factors beyond our control or that, if refinanced, the terms of such debt will not vary from the existing terms. As of December 31, 2018, we have $102,370 of indebtedness due on or before December 31, 2019. We currently expect that cash requirements for all debt that is not refinanced by our existing lenders for which the maturity date is not extended will be met through a combination of cash on hand, refinancing the existing debt with new lenders, draws on the Line of Credit and the issuance of our securities.

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

Common Share Repurchase Plan

In October 2016, our Board of Trustees authorized our 2017 share repurchase program for up to $100,000 of common shares which commenced upon the completion of the prior repurchase program. For the twelve months ended December 31, 2017, the Company repurchased 1,991,573 common shares for an aggregate purchase price of $35,138. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In December 2017, our Board of Trustees authorized a new share repurchase program for up to $100,000 of common shares which commenced on January 1, 2018. The new program expired on December 31, 2018. For the twelve months ended December 31, 2018, the Company repurchased 635,590 common shares for an aggregate purchase price of $10,833. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In December 2018, our Board of Trustees authorized a new share repurchase program for up to $50,000 of common shares which commenced on January 1, 2019. The new program will expire on December 31, 2019, unless extended by our Board of Trustees.

Acquisitions

During the year ended December 31, 2018, we acquired the following wholly-owned hotel properties:

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

* Consists entirely of $3,199 of above market ground lease liability, which is recorded in Other Liabilities on the consolidated balance sheet.

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

Operating Liquidity and Capital Expenditures

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

50

To qualify as a REIT, we must distribute annually at least 90% of our taxable income. This distribution requirement limits our ability to retain earnings and requires us to raise additional capital in order to grow our business and acquire additional hotel properties. However, there is no assurance that we will be able to borrow funds or raise additional equity capital on terms acceptable to us, if at all. In addition, we cannot guarantee that we will continue to make distributions to our shareholders at the current rate or at all. Due to the seasonality of our business, cash provided by operating activities fluctuates significantly from quarter to quarter. We believe that, based on our current estimates, which include the addition of cash from operations provided by hotels acquired during 2018, our cash provided by operating activities will be sufficient over the next 12 months to fund the payment of our dividend at its current level. However, our Board of Trustees continues to evaluate the dividend policy in the context of our overall liquidity and market conditions and may elect to reduce or suspend these distributions. Net cash provided by operating activities for the year ended December 31, 2018 was $114,822 and cash used for the payment of distributions and dividends for the year ended December 31, 2018 was $72,514.

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

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

Spending on capital improvements during the year ended December 31, 2018 increased when compared to spending on capital improvements during the year ended December 31, 2017. During the year ended December 31, 2018, we spent $65,629 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to $51,916 during the same period in 2017. These capital expenditures were undertaken to comply with brand mandated improvements and to initiate projects that we believe will generate a return on investment.

We may spend additional amounts, if necessary, to comply with the requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be prudent. We are also obligated to fund the cost of certain capital improvements to our hotels. During the year ended December 31, 2018, we spent $38,754 on hotel development projects and construction on hurricane impacted hotels compared to $7,637 during the same period of 2017.

We expect to use operating cash flow, borrowings under the Line of Credit, and proceeds from issuances of our securities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above. As a result of damage caused by Hurricane Irma, the Company incurred additional capital expenditures in order to return properties to working order. In some instances, but not all, the Company has recovered a portion of the capital expenditure costs through insurance proceeds. Currently negotiations with our insurance providers are continuing while we settle outstanding claims.

CASH FLOW ANALYSIS (dollars in thousands)

Comparison of the Years Ended December 31, 2018 and December 31, 2017

Net cash provided by operating activities increased $7,699 from $107,123 for the year ended December 31, 2017 to $114,822 for the comparable period in 2018. Net income, adjusted for non-cash items reflected in the statement of cash flows for the year ended December 31, 2018 decreased by $15,905 when compared to 2017. Proceeds from business interruption insurance totaled $8,440 for the year ended December 31, 2018 with no such proceeds in 2017. Furthermore, net changes in working capital assets and liabilities provided additional cash from operating activities of approximately $14,438.

Net cash used in investing activities for the year ended December 31, 2018 was $17,965 compared to net cash used in investing activities of $99,663 for the year ended December 31, 2017. We disposed of three hotel properties for proceeds of $64,880 for the year ended December 31, 2018 compared to the sale of six hotel properties for the year ended December 31, 2017 for $196,635. During the year ended December 31, 2018, we received $15,806 in insurance proceeds related to claims for property losses as a result of Hurricane Irma. Additionally during 2018, we received $47,738 in proceeds from the redemption of our preferred equity investment in our Cindat joint venture. Offsetting these sources of funds were $41,230 for the purchase of one hotel property during the year ended December 31, 2018 compared to $249,369 for the purchase of four hotel properties during 2017. Additionally, our spending on capital expenditures and development projects for 2018 exceeded our spending from 2017 by $44,830, which was the result of planned property repositioning, restaurant re-concepting projects, and construction to repair damage caused by Hurricane Irma.

Net cash used in financing activities for the year ended December 31, 2018 was $81,660 compared to net cash used in financing activities for the year ended December 31, 2017 of $176,511. For the year ended December 31, 2018, excluding activity on the line of credit, proceeds from borrowings totaled $28,000 while repayments on borrowings under the Term Loans and mortgages payable totaled $19,611, resulting in a net borrowings of $8,389. For the year ended December 31, 2017, excluding activity on the line of credit, proceeds from borrowings totaled $58,380 while repayments on borrowings under the Term Loans and mortgages payable totaled $128,882, resulting in a net paydown of borrowings of $70,502. For the year ended December 31, 2018, the net activity on the line of credit resulted in a paydown of the line of credit balance by $6,100 compared to a net borrowing in the line of credit of $16,100 for the year ended December 31, 2017. The Company experienced decrease in cash outflows from financing activities for the year ended December 31, 2018 from cash paid on dividends and distributions, which decreased by $10,472 when comparing 2018 to 2017. The Company also had a reduction of cash spent on the repurchase of common shares, which decreased by $24,345 from the year ended December 31, 2017 when compared to the year ended December 31, 2018.

Comparison of the Years Ended December 31, 2017 and December 31, 2016

Net cash provided by operating activities increased $25,556 from $81,567 for the year ended December 31, 2016 to $107,123 for the comparable period in 2017. Net income, adjusted for non-cash items reflected in the statement of cash flows for the year ended December 31, 2017 increased by $9,282 when compared to 2016. Furthermore, a net decrease in working capital assets provided additional cash from operating activities of approximately $17,148.

Net cash used in investing activities for the year ended December 31, 2017 was $99,663 compared to net cash provided by investing activities of $144,704 for the year ended December 31, 2016. During 2016, we received $429,221 in net proceeds from contributions of seven hotel properties to the Cindat joint venture for which we did not have similar transactions in 2017. We disposed of six hotel properties for proceeds of $196,635 for the year ended December 31, 2017 compared to the sale of four hotel properties for the year ended December 31, 2016 for $67,430. Offsetting these sources of funds were $249,369 for the purchase of four hotel properties during the year ended December 31, 2017 compared to $320,739 for the purchase of five hotel properties during 2016. Additionally, our spending on capital expenditures and development projects for 2017 exceeded our spending from 2016 by $25,334, which was the result of planned property repositioning and restaurant re-concepting projects.

Net cash used in financing activities for the year ended December 31, 2017 was $176,511 compared to net cash used in financing activities for the year ended December 31, 2016 of $78,793. For the year ended December 31, 2017, proceeds from borrowings totaled $58,380 while repayments on borrowings under the Line of Credit, Term Loans and mortgages payable totaled $112,782, resulting in a net paydown of borrowings of $54,402. For the year ended December 31, 2016, proceeds from borrowings totaled $156,100 while repayments on borrowings under the Line of Credit, Term Loans and mortgages payable totaled $276,859, resulting in a net paydown of borrowings of $120,759. Adding to the increase in cash outflows from financing activities for the year ended December 31, 2017 is cash paid on dividends and distributions, which increased by $15,130 when comparing 2017 to 2016. In addition, we issued Series D and E Preferred Shares during 2016 for net proceeds of $282,686 and subsequently redeemed our Series B Preferred Shares in June 2016 by paying $115,000 for a net cash inflow in 2016 of $167,686, for which we had no similar activity in 2017. Partially offsetting these increases in cash used by financing activities was a reduction of cash spent on the repurchase of common shares, which decreased by $16,877 from the year ended December 31, 2016 when compared to the year ended December 31, 2017.

OFF BALANCE SHEET ARRANGEMENTS

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

FUNDS FROM OPERATIONS
(in thousands, except share data)
The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Common Units in accordance with the December 2018 Financial Standards White Paper of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding depreciation and amortization related to real estate, gains and losses from the sale of certain real estate assets, gains and losses from change in control, and impairment write-downs of certain real estate assets and investments in entities when the impairment is directly attributable to decreases in the value of depreciable real estate held by an entity. Our interpretation of the NAREIT definition is that noncontrolling interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.
The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shareholders, includes loss from the impairment of certain depreciable assets, our investment in unconsolidated joint ventures and land, depreciation and amortization expenses, gains or losses on property sales, noncontrolling interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations.
FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Common Units because our Common Units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Common Units.

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

	Year Ended December 31, 2018	December 31, 2017	December 31, 2016
Net (loss) income applicable to common shareholders	$(14,184)	$ 75,699	$ 95,579
(Loss) Income allocated to noncontrolling interests	(1,625)	5,072	4,477
(Income) loss from unconsolidated joint ventures	(1,084)	(13,767)	1,823
Gain on disposition of hotel properties	(4,148)	(90,350)	(115,839)
Loss from impairment of depreciable assets	—	5,926	—
Depreciation and amortization	89,831	83,752	75,390
Funds from consolidated hotel operations applicable to common shareholders and Partnership units	68,790	66,332	61,430
Income (loss) from Unconsolidated Joint Ventures	1,084	13,767	(1,823)
Gain from remeasurement of investment in unconsolidated joint ventures	—	(16,240)	—
Unrecognized pro rata interest in (loss) income	(4,115)	7,398	9,783
Depreciation and amortization of purchase price in excess of historical cost (1)	94	(1,207)	(418)
Interest in depreciation and amortization of unconsolidated joint ventures (2)	4,536	3,967	5,036
Funds from unconsolidated joint ventures operations applicable to common shareholders and Partnership units	1,599	7,685	12,578
Funds from Operations applicable to common shareholders and Partnership units	$70,389	$ 74,017	$ 74,008
Weighted Average Common Shares and Units Outstanding			
Basic	39,383,763	41,423,804	42,957,199
Diluted	43,411,274	44,834,724	45,740,227

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

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

INFLATION

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (dollars in thousands)

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

Revenue Recognition
On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which is codified as ASC 606 and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. The Company has adopted the provisions of ASC 606 effective January 1, 2018, electing to utilize the modified retrospective transition method. The modified retrospective method allows for, among other things, a cumulative adjustment to opening equity upon adoption of the standard. The adoption of the provisions of ASC 606 was applied to contracts with customers using available practical expedients only for contracts with customers. The Company evaluated only those contracts with customers that did not meet the definition of a closed contract under the guidance of ASC 606 at the time of adoption. This approach resulted in no cumulative adjustment to opening equity for the Company as it relates to contracts with customers. The new revenue recognition model will not have a material impact on our hotel operating revenue.

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

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

Food and beverage revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or banquet services. The Company's contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the banquet facilities and related dining amenities are provided to the customer. The Company recognizes food and beverage revenue upon the fulfillment of the contract with the customer. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at our hotels. Advanced deposits for food and beverage revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. The Company notes no significant judgements regarding the recognition of food and beverage revenue.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned to the extent of the noncontrolling interest ownership.
Gains from the sales of ownership interests in real estate are accounted for in accordance with the provisions of Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, which the Company adopted effective January 1, 2018. Our evaluation over sales of real estate is impacted by the FASB definition of a business and in substance nonfinancial assets, which have been addressed through the issuance of ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, and ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), respectively. Based on the provisions of ASU No. 2017-01 and ASU No. 2017-05, the Company expects any future

sales of interests in hotel properties to likely meet the criteria for full gain recognition on sale. This treatment is not different from our historical position when selling our entire interest in hotel properties, however, this is different than the historical treatment in certain instances where the Company sold partial interests in hotel properties.

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

The table below shows the cumulative effect our adoption of ASC 610-20 had on the opening balances of on our balance sheet on Janauary 1, 2018.

	Balance as Reported at December 31, 2017	Cumulative Effect of the Adoption of ASC 610-20	Balance at January 1, 2018, as Adjusted
Investment in Unconsolidated Joint Ventures	$3,569	$47,738	$51,307
Deferred Gain on Disposition of Hotel Assets	$81,284	$(81,284)	$—
Distributions in Excess of Net Income	$(335,373)	$123,228	$(212,145)
Noncontrolling Interests	$54,286	$5,793	$60,079

The quantitative impact of applying the prior accounting policies would have resulted in an increase of $129,021 in the deferred gain on disposition of hotel assets, an increase of $123,228 in distributions in excess of net income thereby decreasing shareholders' equity, and a decrease of $5,793 in noncontrolling interests at December 31, 2018. The adoption of ASC 610-20 did not materially impact the balances in the Company's consolidated statement of operations or its consolidated statement of cash flows.

Investment in Hotel Properties

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

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

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

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

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

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

As of December 31, 2018, based on our analysis, we have determined that the estimated future cash flow of each of the properties in our portfolio is sufficient to recover its carrying value.

New Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The update will simplify several aspects of the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update affect all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees. The provisions of the update are effective for the Company starting January 1, 2019. This update will not have a material effect on our consolidated financial statements and related disclosures based on the historic volatility of our stock price and the relative number of nonemployee share-based payments awards outstanding.

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

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business as it relates to acquisitions and business combinations. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. The Company has adopted ASU No. 2017-01 effective, January 1, 2018. The Company applied the provisions of this standard to record our purchase of the Annapolis Waterfront Hotel as discussed in further detail within Note 2.

57

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. We anticipate that our interests as a lessee in ground leases will have a more than inconsequential impact to our balance sheet as we have six ground leases under which we are the lessee. Based on the terms of our current leases, we have calculated the right-of-use asset and lease liability to be valued within the range of $40,000 and $60,000 as of January 1, 2019. We are currently determining the appropriate discount rate to utilize within our calculations of the right-of-use asset and lease liability, and, as such, we have not finalized our calculations as of December 31, 2018. We determined that there was no material change to the accounting for leases under which we are a lessor. We are still evaluating the impact this ASU will have on the accounting for our leasing arrangements as well as our disclosures within the notes to our financial statements. The provisions of the standard will be effective for the Company on January 1, 2019.

RELATED PARTY TRANSACTIONS

We have entered into a number of transactions and arrangements that involve related parties. For a description of the transactions and arrangements, please see Note 6, “Commitments and Contingencies and Related Party Transactions,” to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our contractual obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2018.

Contractual Obligations	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long Term Debt	$386,444	$102,370	$129,853	$23,831	$130,390
Interest Expense on Long Term Debt	90,769	17,364	22,242	14,736	36,427
Unsecured Term Loans	700,900	—	493,900	207,000	—
Unsecured Line of Credit	10,000	—	10,000	—	—
Interest Expense on Credit Facility	76,024	29,396	39,939	6,689	—
Hotel Ground Rent and Office Rent	293,222	4,585	9,343	8,316	270,978
Total	$1,557,359	$153,715	$705,277	$260,572	$437,795

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (in thousands, except per share data)

Our primary market risk exposure is to changes in interest rates on our variable rate debt which has not been effectively hedged with interest swaps or interest rate caps. As of December 31, 2018, we are exposed to interest rate risk with respect to variable rate borrowings under our Credit Facility, Second Term and Third Term Loans and certain variable rate mortgages and notes payable. As of December 31, 2018, we had total variable rate debt outstanding of $215,482 with a weighted average interest rate of 5.00%. The effect of a 100 basis point increase or decrease in the interest rate on our variable rate debt outstanding as of December 31, 2018 would be an increase or decrease in our interest expense for the twelve months ended December 31, 2019 of $2,225.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We have also entered into derivative financial instruments such as interest rate swaps or caps, and in the future may enter into treasury options or locks, to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. As of December 31, 2018, we have an interest rate cap related to debt on the Hyatt Union Square, New York, NY; Annapolis Waterfront Hotel, Annapolis, MD; and we have five interest rate swaps related to debt on Hilton Garden Inn, 52nd Street, New York, NY; Courtyard, LA Westside, Culver City, CA; and our unsecured credit facility. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

As of December 31, 2018 approximately 88% of our outstanding consolidated long-term indebtedness is subject to fixed rates or effectively capped, while 12% of our outstanding long term indebtedness is subject to floating rates, including borrowings under our revolving credit facility.

Changes in market interest rates on our fixed-rate debt impact the fair value of the debt, but such changes have no impact on interest expense incurred. If interest rates rise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their December 31, 2018 levels, with all other variables held constant. A 100 basis point increase in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2018 to be approximately $1,058,927 and a 100 basis point decrease in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2018 to be approximately $1,106,867.

We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. For debt obligations outstanding as of December 31, 2018, the following table presents expected principal repayments and related weighted average interest rates by expected maturity dates:

	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Fixed Rate Debt	$1,437	$598,475	$230,020	$51,931	$881,863
Weighted Average Interest Rate	4.26 %	4.33 %	4.79 %	4.74 %	4.34 %
Floating Rate Debt	$100,933	$25,278	$811	$78,460	$205,482
Weighted Average Interest Rate	5.04 %	5.27 %	5.40 %	5.47 %	5.10 %
	$102,370	$623,753	$230,831	$130,391	$1,087,345
Line of Credit	$—	$10,000	$—	$—	$10,000
Weighted Average Interest Rate	— %	4.77 %	— %	— %	4.77 %
	$102,370	$633,753	$230,831	$130,391	$1,097,345

The table incorporates only those exposures that existed as of December 31, 2018, and does not consider exposure or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the future period, prevailing interest rates, and our hedging strategies at that time.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Trustees
Hersha Hospitality Trust:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedule III (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for certain historical property sales in 2018 due to the adoption of FASB ASC Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2004.

Philadelphia, Pennsylvania
February 26, 2019

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	December 31, 2018	December 31, 2017
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation	$ 2,026,659	$ 2,009,572
Investment in Unconsolidated Joint Ventures	4,004	3,569
Cash and Cash Equivalents	32,598	17,945
Escrow Deposits	8,185	7,641
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of $188 and $49	10,241	11,999
Due from Related Parties	3,294	5,322
Intangible Assets, Net of Accumulated Amortization of $7,308 and $6,598	13,644	16,388
Other Assets	40,005	49,913
Hotel Assets Held for Sale	—	15,987
Total Assets	$ 2,138,630	$ 2,138,336
Liabilities and Equity:		
Line of Credit	$ 10,000	$ 16,100
Unsecured Term Loans, Net of Unamortized Deferred Financing Costs (Note 5)	698,202	715,449
Unsecured Notes Payable, Net of Unamortized Deferred Financing Costs (Note 5)	50,684	53,781
Mortgages Payable, Net of Unamortized Premium and Unamortized Deferred Financing Costs	334,145	307,683
Accounts Payable, Accrued Expenses and Other Liabilities	70,947	58,770
Dividends and Distributions Payable	17,129	17,115
Deferred Gain on Disposition of Hotel Assets	—	81,284
Total Liabilities	$ 1,181,107	$ 1,250,182
Redeemable Noncontrolling Interests - Consolidated Joint Venture (Note 1)	2,708	—
Equity:		
Shareholders' Equity:		
Preferred Shares: $.01 Par Value, 29,000,000 Shares Authorized, 3,000,000 Series C, 7,701,700 Series D and 4,001,514 Series E Shares Issued and Outstanding at December 31, 2018, and 3,000,000 Series C, 7,701,700 Series D and 4,000,000 Series E Shares Issued and Outstanding at December 31, 2017, with Liquidation Preferences of $25 Per Share (Note 1)	$ 147	$ 147
Common Shares: Class A, $.01 Par Value, 104,000,000 Shares Authorized at December 31, 2018 and December 31, 2017; 39,458,626 and 39,916,661 Shares Issued and Outstanding at December 31, 2018 and December 31, 2017, respectively	395	399
Common Shares: Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at December 31, 2018 and December 31, 2017	—	—
Accumulated Other Comprehensive Income	4,227	3,749
Additional Paid-in Capital	1,155,776	1,164,946
Distributions in Excess of Net Income	(267,740)	(335,373)
Total Shareholders' Equity	892,805	833,868

Noncontrolling Interests (Note 1):	62,010	54,286
Total Equity	954,815	888,154
Total Liabilities and Equity	$ 2,138,630	$ 2,138,336

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE /UNIT AND PER SHARE AMOUNTS]

	Year Ended December 31,		
	2018	2017	2016
Revenue:			
Hotel Operating Revenues:			
Room	$397,907	$411,149	$408,844
Food & Beverage	64,546	58,491	35,366
Other Operating Revenues	31,225	27,500	22,160
Other Revenues	1,385	1,097	259
Total Revenues	495,063	498,237	466,629
Operating Expenses:			
Hotel Operating Expenses:			
Room	88,663	90,716	89,055
Food & Beverage	52,122	47,906	29,566
Other Operating Expenses	158,064	156,428	144,335
Hotel Ground Rent	4,228	3,460	3,600
Real Estate and Personal Property Taxes and Property Insurance	35,194	32,300	32,157
General and Administrative (including Share Based Payments of $11,436, $9,286, and $8,048 for the years ended December 31, 2018, 2017, and 2016, respectively)	26,881	23,553	24,444
Acquisition and Terminated Transaction Costs	29	2,203	2,560
Loss on Impairment of Assets	—	4,082	—
Depreciation and Amortization	89,831	83,752	75,390
(Gains from) Property Losses in Excess of Insurance Recoveries	(12,649)	4,268	—
Total Operating Expenses	442,363	448,668	401,107
Operating Income	52,700	49,569	65,522
Interest Income	114	271	362
Interest Expense	(48,491)	(42,662)	(44,352)
Other Expense	(901)	(771)	(961)
Gain on Disposition of Hotel Properties	4,148	90,350	115,839
Lease Buyout	—	268	(16,831)
Loss on Debt Extinguishment	(22)	(590)	(1,187)
Income Before Results from Unconsolidated Joint Venture Investments and Income Taxes	7,548	96,435	118,392
Income (Loss) from Unconsolidated Joint Ventures	1,084	(2,473)	(1,823)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	—	16,240	—
Income (Loss) from Unconsolidated Joint Venture Investments	1,084	13,767	(1,823)
Income Before Income Taxes	8,632	110,202	116,569
Income Tax (Expense) Benefit	(267)	(5,262)	4,888
Net Income	8,365	104,940	121,457

Loss (Income) Allocated to Noncontrolling Interests - Common Units	916	(5,072)	(4,477)
Loss Allocated to Noncontrolling Interests - Consolidated Joint Venture	709	—	—
Preferred Distributions	(24,174)	(24,169)	(17,380)
Extinguishment of Issuance Costs Upon Redemption of Preferred Shares	—	—	(4,021)
Net (Loss) Income Applicable to Common Shareholders	$(14,184)	$75,699	$95,579

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Year Ended December 31,		
	2018	2017	2016
Earnings Per Share:			
BASIC			
(Loss) Income from Continuing Operations Applicable to Common Shareholders	$(0.38)	$ 1.82	$ 2.21
DILUTED			
(Loss) Income from Continuing Operations Applicable to Common Shareholders	$(0.38)	$ 1.79	$ 2.18
Weighted Average Common Shares Outstanding:			
Basic	39,383,761	41,423,804	42,957,199
Diluted*	39,383,761	42,056,431	43,530,731

* Income allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and the Class A common shares issuable upon any redemption of the Operating Partnership’s common units of limited partnership interest (“Common Units”) and the Operating Partnership’s vested LTIP units (“Vested LTIP Units”) have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these shares and units in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income applicable to common shareholders.

The following table summarizes potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted earnings per share:

	Year Ended December 31,		
	2018	2017	2016
Common Units and Vested LTIP Units	3,141,981	2,778,293	2,209,496
Unvested Stock Awards and LTIP Units Outstanding	358,141	—	—
Contingently Issuable Share Awards	527,389	—	—
Total Potentially Dilutive Securities Excluded from the Denominator	4,027,511	2,778,293	2,209,496

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS]

	Year Ended December 31,		
	2018	2017	2016
Net Income	$8,365	$104,940	$121,457
Change in Fair Value of Derivative Instruments	3,343	3,130	2,449
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	(2,827)	(594)	(610)
Total Other Comprehensive Income	$516	$2,536	$1,839
Comprehensive Income	8,881	107,476	123,296
Less: Comprehensive Loss (Income) Applicable to Noncontrolling Interests - Common Units	878	(5,232)	(4,567)
Less: Comprehensive Loss Applicable to Noncontrolling Interests - Consolidated Joint Venture	709	—	—
Less: Preferred Distributions	(24,174)	(24,169)	(17,380)
Less: Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	—	—	(4,021)
Comprehensive (Loss) Income Applicable to Common Shareholders	$(13,706)	$78,075	$97,328

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests			Reedema[ble] Noncontr[olling] Interests
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Income ($)	Distributions in Excess of Net Income ($)	Total Shareholders' Equity ($)	Common Units and LTIP Units	Common Units and LTIP Units ($)	Total Equity ($)	Consolida[ted] Joint Venture ($)
Balance at December 31, 2017	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(335,373)	833,868	3,223,366	54,286	888,154	—
Cumulative Effect of Adoption of ASC 610-20	—	—	—		—	—	—	123,228	123,228	—	5,793	129,021	—
Adjusted balance at January 1, 2018	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(212,145)	957,096	3,223,366	60,079	1,017,175	—
Unit Conversion	62,807	1	—		—	1,172	—	—	1,173	(62,807)	(1,173)	—	—
Repurchase of Common Shares	(635,590)	(6)	—		—	(10,827)	—	—	(10,833)	—	—	(10,833)	—
Preferred Shares ATM Issuance, Net of Costs	—	—	—	1,514	—	(128)	—	—	(128)	—	—	(128)	—
Dividends and Distributions declared:													
Common Shares ($1.12 per share)	—	—	—		—	—	—	(44,119)	(44,119)	—	—	(44,119)	—
Preferred Shares	—	—	—		—	—	—	(24,174)	(24,174)	—	—	(24,174)	—
Common Units ($1.12 per share)	—	—	—		—	—	—	—	—	—	(2,331)	(2,331)	—
LTIP Units ($1.12 per share)	—	—	—		—	—	—	—	—	—	(1,980)	(1,980)	—
Dividend Reinvestment	4,132	—	—		—	77	—	—	77	—	—	77	—

Plan												
Share Based Compensation:												
Grants	110,616	1	—	—	997	—	—	998	589,106	—	998	—
Amortization	—	—	—	—	2,247	—	—	2,247	—	8,293	10,540	—
Equity Contribution to Consolidated Joint Venture	—	—	—	—	—	—	—	—	—	—	—	3,417
Change in Fair Value of Derivative Instruments	—	—	—	—	—	478	—	478	—	38	516	—
Adjustment to Record Noncontrolling Interest at Redemption Value	—	—	—	—	(2,708)	—	—	(2,708)	—	—	(2,708)	2,708
Net Income (loss)	—	—	—	—	—	—	12,698	12,698	—	(916)	11,782	(3,417)
Balance at December 31, 2018	39,458,626	395	14,703,214	147	1,155,776	4,227	(267,740)	892,805	3,749,665	62,010	954,815	2,708

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

66

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests		
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Income ($)	Distributions in Excess of Net Income ($)	Total Shareholders' Equity ($)	Common Units and LTIP Units	Common Units and LTIP Units ($)	Total Equity ($)
Balance at December 31, 2016	41,770,514	418	—	14,700,000	147	1,198,311	1,373	(364,831)	835,418	2,838,546	44,321	879,739
Unit Conversion	23,964	—	—	—	—	392	—	—	392	(23,964)	(392)	—
Repurchase of Common Shares	(1,991,573)	(20)	—	—	—	(35,158)	—	—	(35,178)	—	—	(35,178)
Common Units Issued	—	—	—	—	—	—	—	—	—	225,000	4,133	4,133
Preferred Shares ATM Issuance, Net of Costs	—	—	—	1,700	—	(219)	—	—	(219)			(219)
Dividends and Distributions declared:												
Common Shares ($1.12 per share)	—	—	—	—	—	—	—	(46,241)	(46,241)	—	—	(46,241)
Preferred Shares	—	—	—	—	—	—	—	(24,169)	(24,169)	—	—	(24,169)
Common Units ($1.12 per share)	—	—	—	—	—	—	—	—	—	—	(2,270)	(2,270)
LTIP Units ($1.12 per share)	—	—	—	—	—	—	—	—	—	—	(1,452)	(1,452)
Dividend Reinvestment Plan	4,425	—	—	—	—	81	—	—	81	—	—	81
Share Based Compensation:												
Grants	109,331	1	—	—	—	28	—	—	29	183,784	779	808
Amortization	—	—	—	—	—	1,511	—	—	1,511	—	3,935	5,446
Change in Fair Value of	—	—	—	—	—	—	2,376	—	2,376	—	160	2,536

Derivative Instruments												
Net Income	—	—	—	—	—	—	—	99,868	99,868	—	5,072	104,940
Balance at December 31, 2017	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(335,373)	833,868	3,223,366	54,286	888,154

The Accompanying Notes are an Integral Part of These Consolidated Financial Statement

67

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests				
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Loss ($)	Distributions in Excess of Net Income ($)	Total Shareholders' Equity ($)	Common Units and LTIP Units	Common Units and LTIP Units ($)	Consolidated Variable Interest Entity ($)	Total Noncontrolling Interests ($)	To E
Balance at December 31, 2015	44,457,368	444	—	7,600,000	76	1,086,259	(466)	(408,274)	678,039	2,319,301	31,876	(1,760)	30,116	70
Repurchase of Common Shares	(2,772,710)	(27)	—		—	(52,028)	—	—	(52,055)	—	—	—	—	(5
Common Units Issued	—	—	—		—	—	—	—	—	225,000	4,430	—	4,430	4,
Preferred Shares														
Preferred Share Offering, Net of Costs	—	—	—	11,700,000	117	282,467	—	—	282,584	—	—	—	—	28
Preferred Share Redemption	—	—	—	(4,600,000)	(46)	(114,954)	—	—	(115,000)	—	—	—	—	(1
Dividends and Distributions declared:														
Common Units ($1.32 per share)	—	—	—		—	—	—	(56,157)	(56,157)	—	—	—	—	(5
Preferred Shares	—	—	—		—	—	—	(17,380)	(17,380)	—	—	—	—	(1
Common Units ($1.32 per share)	—	—	—		—	—	—	—	—	—	(2,356)	—	(2,356)	(2
LTIP Units ($1.32 per share)	—	—	—		—	—	—	—	—	—	(1,574)	—	(1,574)	(1
Dividend Reinvestment Plan	3,518	—	—		—	63	—	—	63	—	—	—	—	63
Share Based Compensation:														
Grants	82,338	1	—		—	(398)	—	—	(397)	294,245	1,060	—	1,060	66
Amortization	—	—	—		—	1,417	—	—	1,417	—	5,971	—	5,971	7,
Change in Fair Value of	—	—	—		—	—	1,839	—	1,839	—	—	—	—	1,

Derivative Instruments													
Exercise of Option to Acquire Noncontrolling Interest	—	—	—	—	(4,515)	—	—	(4,515)	—	—	2,197	2,197	(2
Net Income (Loss)	—	—	—	—	—	—	116,980	116,980	—	4,914	(437)	4,477	12
Balance at December 31, 2016	41,770,514	418	14,700,000	147	1,198,311	1,373	(364,831)	835,418	2,838,546	44,321	—	44,321	87

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS]

	Year Ended December 31,		
	2018	2017	2016
Operating Activities:			
Net Income	$8,365	$104,940	$121,457
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Gain on Disposition of Hotel Properties, Net	(4,148)	(90,350)	(115,839)
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	—	(16,240)	—
Property Impairment	—	4,082	—
(Gains from) Property Losses in Excess of Insurance Recoveries	(12,649)	4,268	—
Lease Buyout	—	(294)	11,845
Deferred Taxes	(144)	5,262	(4,888)
Depreciation	88,897	82,004	74,644
Amortization	2,816	3,550	2,022
Loss on Debt Extinguishment	22	590	1,187
Equity in (Income) Loss of Unconsolidated Joint Ventures	(1,084)	2,473	1,823
Loss Recognized on Change in Fair Value of Derivative Instrument	215	60	50
Share Based Compensation Expense	11,436	9,286	8,048
Distributions from Unconsolidated Joint Ventures	1,426	700	1,574
Proceeds Received for Business Interruption Insurance Claims, net	8,440	—	—
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Hotel Accounts Receivable	1,760	(135)	1,024
Other Assets	(2,556)	1,072	1,286
Due from Related Parties	1,307	13,010	(12,089)
(Decrease) Increase in:			
Due to Related Parties	—	—	(8,789)
Accounts Payable, Accrued Expenses and Other Liabilities	10,719	(17,155)	(1,788)
Net Cash Provided by Operating Activities	$114,822	$107,123	$81,567
Investing Activities:			
Purchase of Hotel Property Assets	$(41,230)	$(249,369)	$(320,739)
Deposits on Hotel Acquisitions	—	(1,000)	—
Capital Expenditures	(65,629)	(51,916)	(33,267)
Cash Paid for Hotel Development Projects	(38,754)	(7,637)	(952)
Proceeds from Disposition of Hotel Properties	64,880	196,635	67,430
Contributions to Unconsolidated Joint Ventures	(1,000)	—	—
Proceeds from Insurance Claims	15,806	—	—
Proceeds from the Sale of Joint Venture Interests	—	11,624	—
Proceeds from Contribution of Hotel Property Assets to Unconsolidated Joint Venture	—	—	429,221
Repayment of Notes Receivable	—	2,000	—
Distributions from Unconsolidated Joint Ventures	47,962	—	3,011
Net Cash (Used in) Provided by Investing Activities	$(17,965)	$(99,663)	$144,704

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS]

	Year Ended December 31,		
	2018	2017	2016
Financing Activities:			
(Repayment) Borrowings Under Line of Credit, Net	$(6,100)	$16,100	$(27,000)
Proceeds of Unsecured Term Loan Borrowing	—	58,380	156,100
Repayment of Borrowings Under Unsecured Term Loan Borrowing	(18,000)	(6,100)	(39,480)
Principal Repayment of Mortgages and Notes Payable	(1,611)	(122,782)	(210,379)
Proceeds from Mortgages and Notes Payable	28,000	—	—
Cash Paid for Deferred Financing Costs	(409)	(3,352)	(2,467)
Cash Paid for Debt Extinguishment	—	(374)	(1,024)
Proceeds from Issuance of Preferred Shares, Net	—	43	282,686
Redemption of Series B Preferred Shares	—	—	(115,000)
Repurchase of Common Shares	(10,833)	(35,178)	(52,055)
Exercise of Option to Acquire Noncontrolling Interest	—	—	(2,318)
Dividends Paid on Common Shares	(44,176)	(55,034)	(48,523)
Dividends Paid on Preferred Shares	(24,174)	(23,771)	(16,116)
Distributions Paid on Common Units and LTIP Units	(4,164)	(4,181)	(3,217)
Other Financing Activities	(193)	(262)	—
Net Cash Used in Financing Activities	$(81,660)	$(176,511)	$(78,793)
Net Increase (Decrease) in Cash and Cash Equivalents	$15,197	$(169,051)	$147,478
Cash, Cash Equivalents, and Restricted Cash - Beginning of Period	25,586	194,637	47,159
Cash, Cash Equivalents, and Restricted Cash - End of Period	$40,783	$25,586	$194,637

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust ("we" or the "Company") was formed in May 1998 as a self-administered, Maryland real estate investment trust. We have elected to be taxed and expect to continue to elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes.

The Company owns a controlling general partnership interest in Hersha Hospitality Limited Partnership ("HHLP" or the "Partnership"), which owns a 99% limited partnership interest in various subsidiary partnerships. Hersha Hospitality, LLC ("HHLLC"), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HHLLC.

The Partnership owns a taxable REIT subsidiary ("TRS"), 44 New England Management Company ("44 New England" or "TRS Lessee"), which leases certain of the Company's hotels.

Hersha's common shares of beneficial interest trade on the New York Stock Exchange ("the NYSE") under the ticker symbol "HT", its 6.875% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol "HT PRC", its 6.500% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol "HT PRD", and it's 6.500% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol "HT PRE."

As of December 31, 2018, the Company, through the Partnership and subsidiary partnerships, wholly owned 38 limited and full service hotels. All of the wholly owned hotel facilities are leased to the Company's TRS, 44 New England.

In addition to the wholly owned hotel properties, as of December 31, 2018, the Company owned an unconsolidated joint venture interest in nine properties and a consolidated joint venture interest in one property. The properties owned by the joint ventures are leased to a TRS owned by the joint venture or to an entity owned by the joint venture partners and 44 New England. The following table lists the properties owned by these joint ventures:

Joint Venture	Property	Location	Lessee/Sublessee
Unconsolidated Joint Ventures			
Cindat Hersha Owner JV, LLC (1)	Hampton Inn	Herald Square, New York, NY	Cindat Hersha Lessee JV, LLC
	Hampton Inn	Chelsea, New York, NY	Cindat Hersha Lessee JV, LLC
	Hampton Inn	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
	Holiday Inn Express	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
	Candlewood Suites	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
	Holiday Inn	Wall Street, New York, NY	Cindat Hersha Lessee JV, LLC
	Holiday Inn Express	Water Street, New York, NY	Cindat Hersha Lessee JV, LLC
SB Partners, LLC (2)	Holiday Inn Express	South Boston, MA	South Bay Sandeep, LLC
Hiren Boston, LLC (2)	Courtyard	South Boston, MA	South Bay Boston, LLC
SB Partners Three, LLC (3)	Home2 Suites	South Boston, MA	SB Partners Three Lessee, LLC

(1) Our common ownership interest in the Cindat Hersha Owner JV, LLC equals 31.2% at December 31, 2018.
(2) Our common ownership interest in SB Partners, LLC and Hiren Boston, LLC equals 50%.

(3) Our common ownership interest in SB Partners Three, LLC equals 50%. This property is currently under development and is expected to open in 2020.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The properties are managed by eligible independent management companies, including Hersha Hospitality Management, LP (“HHMLP”). HHMLP is owned in part by certain of our trustees and executive officers and other unaffiliated third party investors as defined by the Internal Revenue Code.

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include all of our accounts as well as accounts of the Partnership, subsidiary partnerships and our wholly owned TRS Lessee. All significant inter-company amounts have been eliminated. Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Properties owned in joint ventures are also evaluated for consolidation. Entities are consolidated if the determination is made that we are the primary beneficiary in a variable interest entity ("VIE") or we maintain control of the asset through our voting interest or other rights in the operation of the entity. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have a controlling financial interest in that VIE. An enterprise is deemed to have a controlling financial interest if it has i) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance, and ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE. Control can also be demonstrated by the ability of a member to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the other member and the inability of the members to replace the managing member. Based on our examination, the following entities were determined to be VIE’s: HHLP; Cindat Hersha Lessee JV, LLC; South Bay Boston, LLC; Hersha Holding RC Owner, LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II. As noted, HHLP meets the criteria as a VIE. The Company’s most significant asset is its investment in HHLP, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of HHLP. Cindat Hersha Lessee JV, LLC is a VIE that leases hotel property. The entity is consolidated by the lessors, the primary beneficiary. Our maximum exposure to losses due to our investment in Cindat Hersha Owner JV, LLC is limited to our investment in the joint venture which is $0 as of December 31, 2018. Also, South Bay Boston, LLC and SB Partners Three Lessee, LLC, which lease hotel property are a VIE's. The entities are consolidated by the respective lessors, the primary beneficiary. Hersha Holding RC Owner, LLC is the owner entity of the Ritz Carlton Coconut Grove and is a VIE. HHLP is considered the primary beneficiary of the VIE and consolidates the joint venture with the minority owner interest presented as part of noncontrolling interest within the Consolidated Balance Sheets as of December 31, 2018. Hersha Statutory Trust I and Hersha Statutory Trust II are VIEs but HHLP is not the primary beneficiary in these entities. Accordingly, the accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated.

We allocate resources and assess operating performance based on individual hotels and consider each one of our hotels to be an operating segment. No operating segment, individually, meets the threshold for a reportable segment as defined within ASC Topic 280 – Segment Reporting, nor do they fully satisfy the requisite aggregation criteria therein. As a result, the Company does not present separate operating segment information within the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these Consolidated Financial Statements, different assumptions and estimates could materially impact our reported results.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Hotel Properties

The Company records the value of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets and the fair value of liabilities assumed, including debt. The fair value allocations were determined using Level 3 inputs, which are typically unobservable and are based on our own assumptions, as there is little, if any, related market activity. The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements	7 to 40 years
Furniture, Fixtures and Equipment	2 to 7 years

The Company periodically reviews the carrying value of each hotel to determine if circumstances indicate impairment to the carrying value of the investment in the hotel or that depreciation periods should be modified. If facts or circumstances indicate the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel. Based on the property's undiscounted future cash flows, the Company will determine if the investment in such hotel is recoverable. If impairment is indicated, an adjustment will be made to reduce the carrying value of the hotel to reflect its fair value.

We consider a hotel to be held for sale when management and our independent trustees commit to a plan to sell the property, the property is available for sale, management engages in an active program to locate a buyer for the property and it is probable the sale will be completed within a year of the initiation of the plan to sell.

ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business offers guidance when evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires capitalization of acquisition costs to the underlying assets. Acquisition-related cost, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the above acquired assets in the acquisition of a business.

Investment in Unconsolidated Joint Ventures

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to nominal ownership percentages due to specified preferred return rate thresholds. See Note 3 – Investment in Unconsolidated Joint Ventures for a more detailed explanation of the methodology used in determining the allocation of profits and losses within our joint ventures.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred and the impairment is considered other than temporary, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in banks plus short-term investments with an initial maturity of three months or less when purchased.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Deposits

Escrow deposits include reserves for debt service, real estate taxes, and insurance and reserves for furniture, fixtures, and equipment replacements, as required by certain mortgage debt agreement restrictions and provisions.

Hotel Accounts Receivable

Hotel accounts receivable consists primarily of meeting and banquet room rental and hotel guest receivables. The Company generally does not require collateral. Ongoing credit evaluations are performed and an allowance for potential losses from uncollectible accounts is provided against the portion of accounts receivable that is estimated to be uncollectible.

Deferred Financing Costs

Deferred financing costs are recorded at cost and amortized over the terms of the related indebtedness using the effective interest method. Deferred financing costs associated with our line of credit are recorded within the Other Assets line item in our Consolidated Balance Sheets. Deferred financing costs associated with our term loans, mortgage debt, or subordinated notes are recorded as contra-liabilities within each respective line item on our Consolidated Balance Sheets. All amortization of deferred financing costs is presented with in the Interest Expense line on our Consolidated Statements of Operations.

Due from/to Related Parties

Due from/to Related Parties represents current receivables and payables resulting from transactions related to hotel management and project management with affiliated entities. Due from related parties results primarily from advances of shared costs incurred. Due to affiliates results primarily from hotel management and project management fees incurred. Both due to and due from related parties are generally settled within a period not to exceed one year.

Intangible Assets and Liabilities

Intangible assets consist of leasehold intangibles for above-market value of in-place leases and deferred franchise fees. The leasehold intangibles are amortized over the remaining lease term. Deferred franchise fees are amortized using the straight-line method over the life of the franchise agreement.

Intangible liabilities consist of leasehold intangibles for below-market value of in-place leases. The leasehold intangibles are amortized over the remaining lease term. Intangible liabilities are included in the accounts payable, accrued expenses and other liabilities on the Company’s consolidated balance sheets.

Development Project Capitalization

We have opportunistically engaged in the development and re-development of hotel assets. We capitalize expenditures related to hotel development projects and renovations, including indirect costs such as interest expense, real estate taxes and utilities related to hotel development projects and renovations.

Noncontrolling Interest

Noncontrolling interest in the Partnership represents the limited partner’s proportionate share of the equity of the Partnership. Income (loss) is allocated to noncontrolling interest in accordance with the weighted average percentage ownership of the Partnership during the period. At the end of each reporting period the appropriate adjustments to the income (loss) are made based upon the weighted average percentage ownership of the Partnership during the period. Our ownership interest in the Partnership as of December 31, 2018, 2017 and 2016 was 91.3%, 92.5%, and 93.6%, respectively.

We define a noncontrolling interest as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

Such noncontrolling interests are reported on the consolidated balance sheets within equity, but separately from the shareholders’ equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
In accordance with US GAAP, we classify securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the issuer, outside of permanent equity in the consolidated balance sheet. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company considers the guidance in US GAAP to evaluate whether the Company controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract.
We classify the noncontrolling interests of our common units of limited partnership interest in HHLP ("Common Units"), and Long Term Incentive Plan Units ("LTIP Units") as equity. LTIP Units are a seperate class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units and LTIP Units totaled $62,010 as of December 31, 2018 and $54,286 as of December 31, 2017. As of December 31, 2018, there were 3,749,665 Common Units and LTIP Units collectively outstanding with a fair market value of $65,769, based on the price per share of our common shares on the NYSE on such date.
In accordance with the partnership agreement of the Partnership, holders of these units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying cash.
On April 2, 2018, we entered into a joint venture with the party from which we acquired the Ritz-Carlton Coconut Grove, FL. By exercising an option provided to the seller in connection with our purchase of the property in 2017, our joint venture partner will have a noncontrolling equity interest of 15% in the property. Hersha Holding RC Owner, LLC, the owner entity of the Ritz-Carlton Coconut Grove joint venture ("Ritz Coconut Grove"), will distribute income based on cash available for distribution which will be distributed as follows: (1) to us until we receive a cumulative return on our contributed senior common equity interest, currently at 8%, and (2) then to the owner of the noncontrolling interest until they receive a cumulative return on their contributed junior common equity interest, currently at 8%, and (3) then 75% to us and 25% to the owner of the noncontrolling interest until we both receive a cumulative return on our contributed senior common equity interest, currently at 12%, and (4) finally, any remaining operating profit shall be distributed 70% to us and 30% to the owner of the noncontrolling interest. Additionally, the noncontrolling interest in the Ritz Coconut Grove has the right to put their ownership interest to us for cash consideration at any time during the life of the venture. The balance sheet and financial results of the Ritz Coconut Grove are included in our consolidated financial statements and book value of the noncontrolling interest in the Ritz Coconut Grove is classified as temporary equity within our Consolidated Balance Sheet. The noncontrolling interest in the Ritz Coconut Grove was initially measured at fair value upon formation of the joint venture and will be subsequently measured at the greater of historical cost or the put option redemption value. For the year ended December 31, 2018, based on the income allocation methodology described above, the noncontrolling interest in this joint venture was allocated losses of $3,417, and is recorded as part of the (Income) Loss Allocated to Noncontrolling Interests line item within the Consolidated Statements of Operations. On December 31, 2018, we reclassified $2,708 from Additional Paid in Capital to Noncontrolling Joint Venture Interest to recognize interest at the put option redemption value of $2,708.
Net income or loss attributed to Common Units and LTIP Units, as well as the net income or loss related to the noncontrolling interests of our consolidated variable interest entity, is included in net income or loss in the consolidated statements of operations. Net income or loss attributed to the Common Units, LTIP Units, and the noncontrolling interests of our consolidated joint ventures is excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.
Shareholders’ Equity

On May 31, 2016, we completed a public offering of 7,700,000 (including 700,000 overallotment shares sold on June 14, 2016) 6.50% Series D Cumulative Redeemable Preferred Shares. These shares have a par value of $0.01 per share with a $25.00 liquidation preference per share. Net proceeds of the offering, after deducting the underwriting discount and the offering expenses payable by us, were approximately $185,999. We utilized the net proceeds of the offering to redeem all outstanding 8.00% Series B Cumulative Redeemable Preferred Shares on June 8, 2016, and for general corporate purposes.

Shares of our 8.00% Series B Cumulative Redeemable Preferred Shares were redeemed at a per share redemption price of $25.00 together with accrued and unpaid dividends to the redemption date for an aggregate per share redemption price of $25.3722. Dividends ceased accruing on the Series B Preferred Shares on June 8, 2016.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
On November 7, 2016, we completed a public offering of 4,000,000 6.50% Series E Cumulative Redeemable Preferred Shares. These shares have a par value of $0.01 per share with a $25.00 liquidation preference per share. Net proceeds of the offering, after deducting the underwriting discount and the offering expenses payable by us, were approximately $96,585. We utilized the net proceeds of the offering for general corporate purposes.
Terms of the Series C, Series D and Series E Preferred Shares outstanding at December 31, 2018 and 2017 are summarized as follows:

	Shares Outstanding				Dividend Per Share Year Ended December 31,	
Series	December 31, 2018	December 31, 2017	Aggregate Liquidation Preference	Distribution Rate	2018	2017
Series C	3,000,000	3,000,000	$ 75,000	6.875 %	$1.7188	$1.7188
Series D	7,701,700	7,701,700	$ 192,500	6.500 %	$1.6250	1.6250
Series E	4,001,514	4,000,000	$ 100,000	6.500 %	$1.6250	1.6250
Total	14,703,214	14,701,700				

Our partnership agreement allows for the issuance of profits interests in HHLP in the form of LTIP Units, a class of limited partnership units in HHLP, and defines the terms of the LTIP Units. The LTIP Units vest on December 31 and June 1 of each year, beginning on December 31, 2014 and ending on June 1, 2017. The LTIP Units contain restricted stock awards that were forfeited and replaced with LTIP Unit awards with similar terms. The total number of Restricted Stock Awards forfeited and LTIP Units awarded was 1,948,324.
In October 2016, our Board of Trustees authorized a new share repurchase from time to time up to an aggregate of $100,000 of our outstanding shares. For the year ended December 31, 2017, the Company repurchased 1,991,573 common shares for an aggregate purchase price of $35,178 under the October 2016 repurchase programs. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.
In April 2017, we entered into Equity Distribution Agreements with four investment banks whereby we agreed to sell up to 8,000,000 Class A common shares, up to 1,000,000 Series D Cumulative Redeemable Preferred Shares, and up to 1,000,000 Series E Cumulative Redeemable Preferred Shares from time to time in an "at the market" offering. In conjunction with this transaction, the Company increased the number of authorized Class A common shares from 90,000,000 to 104,000,000. For the year ended December 31, 2018, we issued 1,514 Series E Preferred Shares through this program. For the year ended December 31, 2017, we issued 1,700 Series D Preferred Shares through this program.
In December 2017, our Board of Trustees authorized a new share repurchase program for up to $100,000 of common shares which commenced on January 1, 2018 and expired on December 31, 2018. For the year ended December 31, 2018, we repurchased 635,590 common shares for an aggregate purchase price of $10,834. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.
In December 2018, our Board of Trustees authorized a new share repurchase program for up to $50,000 of common shares which commenced on January 1, 2019. The program will expire on December 31, 2019, unless extended by the Board of Trustees.
Stock Based Compensation
We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to

performance awards that are contingent upon market-based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Derivatives and Hedging
The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates.
Revenue Recognition
On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which is codified as ASC 606 and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP. The Company has adopted the provisions of ASC 606 effective January 1, 2018, electing to utilize the modified retrospective transition method. The modified retrospective method allows for, among other things, a cumulative adjustment to opening equity upon adoption of the standard. The adoption of the provisions of ASC 606 was applied to contracts with customers using available practical expedients only for contracts with customers. The Company evaluated only those contracts with customers that did not meet the definition of a closed contract under the guidance of ASC 606 at the time of adoption. This approach resulted in no cumulative adjustment to opening equity for the Company as it relates to contracts with customers. The new revenue recognition model did not have a material impact on our hotel operating revenue.

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

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

Food and beverage revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or banquet services. The Company's contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the banquet facilities and related dining amenities are provided to the customer. The Company recognizes food and beverage revenue upon the fulfillment of the contract with the customer. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at our hotels. Advanced deposits for food and beverage revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. The Company notes no significant judgements regarding the recognition of food and beverage revenue.

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

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

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

The table below shows the cumulative effect our adoption of ASC 610-20 had on the opening balances of on our balance sheet on Janauary 1, 2018.

	Balance as Reported at December 31, 2017	Cumulative Effect of the Adoption of ASC 610-20	Balance at January 1, 2018, as Adjusted
Investment in Unconsolidated Joint Ventures	$3,569	$47,738	$51,307
Deferred Gain on Disposition of Hotel Assets	$81,284	$(81,284)	$—
Distributions in Excess of Net Income	$(335,373)	$123,228	$(212,145)
Noncontrolling Interests	$54,286	$5,793	$60,079

The quantitative impact of applying the prior accounting policies would have resulted in an increase of $129,021 in the deferred gain on disposition of hotel assets, an increase of $123,228 in distributions in excess of net income thereby decreasing shareholders' equity, and a decrease of $5,793 in noncontrolling interests at December 31, 2018. The adoption of ASC 610-20 did not materially impact the balances in the Company's consolidated statement of operations or its consolidated statement of cash flows.

Income Taxes

The Company has elected to be taxed as a REIT under applicable provisions of the Internal Revenue Code of 1986, as amended, or the Code, and intends to continue to qualify as a REIT. In general, under such provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, will not be subject to federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for federal income tax purposes.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income taxes relate primarily to the TRS Lessee and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS Lessee and their respective tax bases and for their operating loss and tax credit carry forwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

The Company may recognize a tax benefit from an uncertain tax position when it is more-likely-than-not (defined as a likelihood of more than 50%) that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the statements of operations. The Company recognizes interest and penalties, as applicable, related to unrecognized tax benefits as a component of income tax expense. The Company recognizes unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority, or by expiration of the applicable statute of limitation. For the years ended December 31, 2018, 2017 and 2016, the Company did not record any uncertain tax positions. As of December 31, 2018, with few exceptions, the Company is subject to tax examinations by federal, state, and local income tax authorities for years 2003 through 2018.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

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

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

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business as it relates to acquisitions and business combinations. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. The Company has adopted ASU No. 2017-01 effective, January 1, 2018. The Company applied the provisions of this standard to record our purchase of the Annapolis Waterfront Hotel as discussed in further detail within Note 2.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. We anticipate that our interests as a lessee in ground leases will have a more than inconsequential impact to our balance sheet as we have six ground leases under which we are the lessee. Based on the terms of our current leases, we have calculated the right-of-use asset and lease liability to be valued within the range of $40,000 and $60,000 as of January 1, 2019. We are currently determining the appropriate discount rate to utilize within our calculations of the right-of-use asset and lease liability, and, as such, we have not finalized our calculations as of December 31, 2018. We determined that there was no material change to the accounting for leases under which we are a lessor. We are still evaluating the impact this ASU will have on the accounting for our leasing arrangements as well as our disclosures within the notes to our financial statements. The provisions of the standard will be effective for the Company on January 1, 2019.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Land	$ 518,243	$ 532,549
Buildings and Improvements	1,688,459	1,603,655
Furniture, Fixtures and Equipment	278,098	250,922
Construction in Progress	3,804	9,503
	2,488,604	2,396,629
Less Accumulated Depreciation	(461,945)	(387,057)
Total Investment in Hotel Properties	$ 2,026,659	$ 2,009,572

Depreciation expense on hotel properties was $88,598, $81,632 and $74,288 for the years ended December 31, 2018, 2017 and 2016, respectively.

During the year ended December 31, 2018, we acquired the following wholly-owned hotel properties:

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

* Consists entirely of $3,199 of above market ground lease liability, which is recorded in Other Liabilities on the consolidated balance sheet.

During the year ended December 31, 2017, we acquired the following wholly-owned hotel properties:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Other Intangibles	Total Purchase Price	Assumption of Debt
Mystic Marriott Hotel & Spa, Groton, CT (1)	1/3/2017	1,420	40,440	7,240	899 *	49,999	41,333
The Ritz-Carlton, Coconut Grove, FL	2/1/2017	5,185	30,825	1,064	(291) **	36,783	3,150
The Pan Pacific Hotel, Seattle, WA	2/21/2017	13,079	59,256	6,665	—	79,000	—
Philadelphia Westin, Philadelphia, PA	6/29/2017	19,154	103,406	12,024	367 ***	134,951	—
Total		$ 38,838	$ 233,927	$ 26,993	$ 975	$ 300,733	$ 44,483

(1) Mystic Marriott Hotel & Spa was acquired as partial consideration within the transaction to redeem and transfer our joint venture interest in Mystic Partners, LLC. See Note 3 for further description of the transaction.

* Consists entirely of $899 of advanced bookings.
** Includes an intangible asset for a lease-in-place of $229, and a below market lease liability of $520.
*** Consists entirely of $367 of advanced bookings.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

The above acquisition for the year ended December 31, 2018 is considered an asset acquisition under US GAAP. As such acquisition-related costs, such as due diligence, legal fees and other costs, have been capitalized and allocated to the assets acquired based on their relative fair values as of December 31, 2018. Prior to January 1, 2018, acquisition-related costs, such as due diligence, legal and accounting fees, were considered part of a business acquisition under US GAAP. As such, they are not capitalized or applied in determining the fair value of the above acquired assets as of December 31, 2017. During the years ended December 31, 2018, 2017, and 2016, we incurred $29, $2,203, and $2,560 in acquisition costs related to acquired assets and costs related to terminated transactions, respectively.

Included in the consolidated statements of operations for the year ended December 31, 2018 are total revenues of $9,574 and a total net income of $1,753 for hotels we have acquired and consolidated since the date of acquisition. These amounts represent the results of operations for these hotels since the date of acquisition as presented in the table below:

	Year Ended December 31, 2018	
Hotel	Revenue	Net Income
Annapolis Waterfront Hotel, MD	$9,574	$ 1,753

Included in the consolidated statement of operations for the year ended December 31, 2017 are total revenues of $62,147 and a total net income of $3,042 for hotels we have acquired and consolidated since the date of acquisition. These amounts represent the results of operations for these hotels since the date of acquisition as presented in the table below:

	Year Ended December 31, 2017	
Hotel	Revenue	Net Income (Loss)
Mystic Marriott Hotel & Spa, Groton, CT	$21,247	$1,700
The Ritz-Carlton, Coconut Grove, FL	13,390	(693)
The Pan Pacific Hotel, Seattle, WA	13,128	493
Philadelphia Westin, Philadelphia, PA	14,382	1,542
Total	$62,147	$3,042

Property Damage from Natural Disaster

During September 2017, all six of our hotels located in South Florida incurred property damage and an interruption of business operations as a result of Hurricane Irma. Two of our hotels, the Courtyard Cadillac Miami and the Parrot Key Hotel & Resort, incurred significant physical damage and were closed due to the disaster. The Courtyard Cadillac Miami opened for business in the third quarter of 2018, and the Parrot Key Hotel & Resort opened for business in the fourth quarter of 2018, respectively. The remaining four properties have resumed normal business activities as of December 31, 2018. During the year ended December 31, 2018, we recorded a net gain in excess of estimated insurance recoveries of $12,649.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES (CONTINUED)
Hotel Dispositions
During the years ended December 31, 2018, 2017, and 2016, we had the following hotel dispositions:

Hotel	Acquisition Date	Disposition Date	Consideration	Gain (Loss) on Disposition
Hyatt House Gaithersburg, MD	December 2006	February 2018	$ 19,000	$ 2,441
Hampton Inn Pearl Street, NY	June 2014	March 2018	32,400	926
Residence Inn Tysons Corner, VA	February 2006	October 2018	15,700	781
2018 Total				$ 4,148
Residence Inn, Greenbelt, MD	July 2004	January 2017	$ 35,000	$ 19,541
Courtyard Alexandria, VA	September 2006	January 2017	27,000	(1,123)
Hyatt House Scottsdale, AZ	December 2006	June 2017	36,000	15,015
Hyatt House Pleasant Hill, CA	December 2006	June 2017	45,000	22,406
Hyatt House Pleasanton, CA	December 2006	June 2017	49,500	33,507
Holiday Inn Express, Chester, NY	January 2007	December 2017	8,400	1,004
2017 Total				$ 90,350
Cindat Hotel Portfolio (7)	April 2005 - March 2011	April 2016	543,500	89,892
Hyatt Place, King of Prussia, PA	August 2010	May 2016	13,000	5,375
Hawthorn Suites, Franklin, MA	April 2006	September 2016	8,900	(438)
Residence Inn, Framingham, MA	March 2004	November 2016	25,000	11,467
Residence Inn, Norwood, MA	July 2006	November 2016	22,000	9,543
2016 Total				$ 115,839

On February 4, 2016, we announced the signing of asset purchase and contribution agreements (the "Contribution Agreements") with Cindat Manhattan Hotel Portfolio (US) LLC ("Cindat") to form a joint venture, Cindat Hersha Owner JV, LLC (the "Owner JV"), which initially invested in seven of our limited service hotels in Manhattan (the "JV Properties"). This transaction was consummated on April 29, 2016. The Contribution Agreements valued the JV Properties at $543,500. Cindat contributed $354,550 and received a 70% senior common equity interest in Owner JV. We contributed the JV Properties to Owner JV and received $354,550 in cash and a preferred equity interest initially valued at $37,000. In addition, we retained a 30% junior common equity interest in Owner JV. We contributed $12,239 and Cindat contributed an aggregate of $14,105 in working capital and closing costs for the formation of Owner JV, and finance costs related to debt originated on the JV Properties by Owner JV. In addition, we incurred additional closing costs associated with the contribution of the JV Properties to Owner JV of $10,653.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES (CONTINUED)
Assets Held For Sale
We have classified the assets related to these hotels as held for sale as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Land	$ —	$ 2,911
Buildings and Improvements	—	20,168
Furniture, Fixtures and Equipment	—	4,340
	—	27,419
Less: Accumulated Depreciation & Amortization	—	(11,432)
Assets Held for Sale	$ —	$ 15,987

Pro Forma Results (Unaudited)
The following condensed pro forma financial data are presented as if all acquisitions completed since January 1, 2018 and 2017 had been completed on January 1, 2017 and 2016, respectively. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma financial data is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2018 and 2017 at the beginning of the year presented, nor do they purport to represent the results of operations for future periods.

	Year Ended December 31,	
	2018	2017
Pro Forma Total Revenues	$497,686	$526,768
Pro Forma Net Income	8,712	111,595
Loss (Income) Allocated to Noncontrolling Interest	1,599	(5,491)
Preferred Distributions	(24,174)	(24,169)
Pro Forma (Loss) Income Applicable to Common Shareholders	$(13,863)	$81,935
Pro Forma (Loss) Income Applicable to Common Shareholders per Common Share		
Basic	$(0.35)	$1.98
Diluted	$(0.35)	$1.95
Weighted Average Common Shares Outstanding		
Basic	39,383,763	41,423,804
Diluted	39,383,763	42,056,431

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of December 31, 2018 and December 31, 2017 our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned	December 31, 2018	December 31, 2017
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0 %	$ 1,125	$ 1,407
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0 %	1,879	2,162
SB Partners Three, LLC	Home2 Suites, South Boston, MA	50.0 %	1,000	—
Cindat Hersha Owner JV, LLC	Hilton and IHG branded hotels in NYC	31.2 %	—	—
			$ 4,004	$ 3,569

On September 27, 2018, we entered into a joint venture agreement with JHM SB Three Member, LLC which will own a Home2 Suites located in South Boston, MA. Each partner will have a 50.0% interest of this asset, which is currently under development and is expected to open in 2020. At the onset of the agreement, each partner contributed $1,000 and any additional contributions will be made equally by each party until construction financing is secured.

On February 6, 2018, Cindat Hersha Owner JV, LLC repaid in full outstanding mortgage debt from an existing senior loan and mezzanine loan, and simultaneously entered into a new senior loan agreement with new lenders. A portion of the net cash proceeds from the refinance was used to distribute $47,738 to the Company to fully redeem our recorded preferred equity interest in the venture. While this transaction fully redeemed our preferred equity interest in the venture, the Company continues to hold a common equity investment in this joint venture which has a balance of $0 at December 31, 2018.

As a result of net distributions of Cindat Hersha Owner JV, LLC to Cindat and the Company during the three months ended March 31, 2018, the common interests of each member and common membership interests effective retroactively to January 1, 2018 is 31.2% to HHLP and 68.8% to Cindat. There are no remaining preferred equity interests.

Effective January 1, 2018, the member allocations for distributions of net cash flow from operations, distributions from capital transactions and allocation of income and loss are based on these new common contributions and percentage interests. See the Income/Loss Allocation section below for a full explanation how income and loss are allocated for Cindat Hersha Owner JV, LLC.

On January 3, 2017, we redeemed our joint venture interest in Mystic Partners, LLC by acquiring a 100% ownership interest in the Mystic Marriott Hotel & Spa and transferring our minority ownership interests in the Hartford Marriott and Hartford Hilton to our joint venture partner. We received $11,623 in cash and assumed a mortgage on the Mystic Marriott Hotel & Spa of $41,333 as consideration for this redemption and transfer of our minority interest. Subsequent to the assumption of the mortgage, the Company fully paid off the outstanding balance of the debt and added the property to the borrowing base of our Credit Facility. As a result of the remeasurement of the consideration received to fair value, the Company recognized a gain of $16,240 in conjunction with this transaction.

Income/Loss Allocation

Effective January 1, 2018, the Cindat Hersha Owner JV, LLC cash available for distribution will be distributed to (1) Cindat until they receive a return on their contributed $142,000 senior common equity interest, currently at 9.5%, and (2) then to us until we receive an 8% return on our contributed $64,357 junior common equity interest. Any cash available for distribution remaining will be split 31.2% to us and 68.8% to Cindat. Cindat's senior common equity return is reduced by 0.5% annually for 4 years following the closing until it is set at a rate of 8% for the remainder of the life of the joint venture. As of December 31, 2018 and 2017, based on the income allocation methodology described above, the Company has absorbed cumulative losses equal to our accounting basis in the joint venture resulting in a $0 investment balance in the table above, however, we currently maintain a positive equity balance within the venture. This difference is due to difference in our basis inside the venture versus our basis outside of the venture.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

For SB Partners, LLC, Hiren Boston, LLC, and SB Partners Three, LLC, income or loss is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. This results in an income allocation consistent with our percentage of ownership interests.

Any difference between the carrying amount of any of our investments noted above and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets.

Income recognized during the years ended December 31, 2018, 2017 and 2016, for our investments in unconsolidated joint ventures is as follows:

	Year Ended December 31,		
	2018	2017	2016
SB Partners, LLC	$218	$494	$618
Hiren Boston, LLC	866	750	839
SB Partners Three, LLC	—	—	—
Cindat Hersha Owner JV, LLC	—	(3,717)	(137)
Mystic Partners, LLC	—	—	(3,143)
Income (Loss) from Unconsolidated Joint Venture Investments	$1,084	$(2,473)	$(1,823)

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company's share, related to the unconsolidated joint ventures discussed above as of December 31, 2018 and December 31, 2017 and for the years ended December 31, 2018, 2017 and 2016.

Balance Sheets

	December 31, 2018	December 31, 2017
Assets		
Investment in Hotel Properties, Net	$ 569,609	$ 568,724
Other Assets	30,088	46,158
Total Assets	$ 599,697	$ 614,882
Liabilities and Equity		
Mortgages and Notes Payable	$ 422,205	$ 359,121
Other Liabilities	7,478	7,901
Equity:		
Hersha Hospitality Trust	15,554	88,936
Joint Venture Partner(s)	155,053	159,182
Accumulated Other Comprehensive Loss	(593)	(258)
Total Equity	170,014	247,860
Total Liabilities and Equity	$ 599,697	$ 614,882

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)
Statements of Operations

	Year Ended December 31,		
	2018	2017	2016
Room Revenue	$98,123	$93,254	$118,645
Other Revenue	2,350	1,965	24,424
Operating Expenses	(46,319)	(43,245)	(80,091)
Lease Expense	(658)	(691)	(1,143)
Property Taxes and Insurance	(11,882)	(11,274)	(9,512)
General and Administrative	(5,489)	(5,179)	(8,976)
Depreciation and Amortization	(13,403)	(12,331)	(13,286)
Interest Expense	(26,289)	(20,965)	(18,568)
Loss on Debt Extinguishment	(7,270)	—	—
Acquisition Costs	—	—	(1,468)
Other Income	—	—	2,466
Loss Allocated to Noncontrolling Interests	—	—	(46)
Net (Loss) Income	$(10,837)	$1,534	$12,445

The following table is a reconciliation of our share in the unconsolidated joint ventures' equity to our investment in the unconsolidated joint ventures as presented on our balance sheets as of December 31, 2018 and December 31, 2017.

	December 31, 2018	December 31, 2017
Our share of equity recorded on the joint ventures' financial statements	$ 15,554	$ 88,936
Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1)	(11,550)	(85,367)
Investment in Unconsolidated Joint Ventures	$ 4,004	$ 3,569

(1) Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures consists of the following:

- the difference between our basis in the investment in joint ventures and the equity recorded on the joint ventures' financial statements;
- accumulated amortization of our equity in joint ventures that reflects the difference in our portion of the fair value of joint ventures' assets on the date of our investment when compared to the carrying value of the assets recorded on the joint ventures' financial statements (this excess or deficit investment is amortized over the life of the properties, and the amortization is included in Income (Loss) from Unconsolidated Joint Venture Investments on our consolidated statement of operations); and
- cumulative impairment of our investment in joint ventures not reflected on the joint ventures' financial statements, if any.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 4 – OTHER ASSETS AND DEPOSITS ON HOTEL ACQUISITIONS
Other Assets
Other Assets consisted of the following at December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Derivative Asset	$ 5,307	$ 4,282
Deferred Financing Costs	1,845	2,360
Prepaid Expenses	10,695	10,580
Investment in Statutory Trusts	1,548	1,548
Investment in Non-Hotel Property and Inventories	3,349	3,948
Deposits with Unaffiliated Third Parties	2,866	2,361
Deferred Tax Asset, Net of Valuation Allowance of $497	11,078	10,934
Property Insurance Receivable	—	10,023
Other	3,317	3,877
	$ 40,005	$ 49,913

Derivative Asset - This category represents the Company's gross asset fair value of interest rate swaps and interest rate caps. Any swaps and caps resulting in a liability to the Company are accounted for separately within Other Liabilities on the Balance Sheet.
Deferred Financing Costs - This category represents financing costs paid by the Company to establish our Line of Credit. These costs have been capitalized and will amortize to interest expense over the life of the Line of Credit.
Prepaid Expenses - Prepaid expenses include amounts paid for property tax, insurance and other expenditures that will be expensed in the next twelve months.
Investment in Statutory Trusts - We have an investment in the common stock of Hersha Statutory Trust I and Hersha Statutory Trust II. Our investment is accounted for under the equity method.
Investment in Non-Hotel Property and Inventories - This category represents the costs paid and capitalized by the Company for items such as office leasehold improvements, furniture and equipment, and property inventories.
Deposits with Unaffiliated Third Parties - These deposits represent deposits made by the Company with unaffiliated third parties for items such as lease security deposits, utility deposits, and deposits with unaffiliated third party management companies.
Deferred Tax Asset - We have approximately $11,078 of net deferred tax assets as of December 31, 2018. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the $11,078 of net deferred tax assets in the future.
Property Insurance Receivable – This category represents the amount of building impairment & remediation costs as a result of Hurricane Irma that we expect to receive from our insurance companies.

NOTE 5 – DEBT
Mortgages
Mortgages payable at December 31, 2018 and December 31, 2017 consisted of the following:

	December 31, 2018	December 31, 2017
Mortgage Indebtedness	$ 334,897	$ 308,508
Net Unamortized Premium	1,304	1,802
Net Unamortized Deferred Financing Costs	(2,056)	(2,627)
Mortgages Payable	$ 334,145	$ 307,683

Net Unamortized Deferred Financing Costs associated with entering into mortgage indebtedness are deferred and amortized over the life of the mortgages. Net Unamortized Premiums are also amortized over the remaining life of the loans.
Mortgage indebtedness balances are subject to fixed and variable interest rates, which ranged from 3.21% to 6.30% as of December 31, 2018. Aggregate interest expense incurred under the mortgage loans payable totaled $15,050, and $12,405 and $20,916 during the years ended December 31, 2018, 2017, and 2016 respectively.
Our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, non-recourse financing arrangements. Our mortgage loans payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that all debt covenants contained in the loan agreements securing our hotel properties were met as of December 31, 2018.
As of December 31, 2018, the maturity dates for the outstanding mortgage loans ranged from June 2019 to September 2025.
Subordinated Notes Payable
We have two junior subordinated notes payable in the aggregate amount of $51,548 to the Hersha Statutory Trusts pursuant to indenture agreements which will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, prior to maturity in accordance with the provisions of the indenture agreements. The $25,774 notes issued to Hersha Statutory Trust I and Hersha Statutory Trust II, bear interest at a variable rate of LIBOR plus 3% per annum. This rate resets two business days prior to each quarterly payment. The face value of the notes payable is offset by $864 and $917 as of December 31, 2018 and 2017, respectively, in net deferred financing costs incurred as a result of entering into these indentures. The deferred financing costs are amortized over the life of the notes payable. The weighted average interest rate on our two junior subordinated notes payable during the years ended December 31, 2017, 2016 and 2015 was 5.23%, 4.24% and 3.75%, respectively. Also included in the balance of notes payable at December 31, 2017 is $3,150 in seller financing provided in connection with the purchase of the Ritz-Carlton Coconut Grove, which bears interest at a fixed rate of 6% per annum, and matured on February 1, 2018. Interest expense incurred on notes payable totaled $2,696, $2,358 and $1,931 for the years ended December 31, 2018, 2017 and 2016, respectively.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 5 – DEBT (CONTINUED)

Credit Facilities

We maintain three unsecured credit agreements which aggregate to $950,900 with Citigroup Global Markets Inc., Wells Fargo Bank, Inc. and various other lenders. Our credit facility provides for a $457,000 senior unsecured credit facility (“Credit Facility”) . The Credit Facility consists of a $250,000 senior unsecured revolving line of credit (“Line of Credit”), and a $207,000 senior unsecured term loan (“First Term Loan”). The Credit Facility expires on August 10, 2022, and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one- year period. The Credit Facility is also expandable to $857,000 at our request, subject to the satisfaction of certain conditions.

Our second credit agreement provides for a $300,000 senior unsecured term loan agreement (“Second Term Loan”) and expires on August 10, 2020.

Our third credit agreement provides for a $193,900 senior unsecured term loan agreement (“Third Term Loan”) and expires on August 2, 2021.

As of December 31, 2018 and 2017, the Company had an outstanding balance on the term loans of $700,900 and $718,900, respectively. As of December 31, 2018 and 2017, the Company had an outstanding balance on the line of credit of $10,000 and $16,100.

The amount that we can borrow at any given time under our Line of Credit, and the First, Second and Third Term Loan (each a “Term Loan” and together the “Term Loans”) is governed by certain operating metrics of designated unencumbered hotel properties known as borrowing base assets. As of December 31, 2018, the following hotel properties were borrowing base assets:

- Courtyard by Marriott Brookline, Brookline, MA	- Hampton Inn, Washington, DC
- Holiday Inn Express Cambridge, Cambridge, MA	- Ritz-Carlton Georgetown, Washington, DC
- The Envoy Boston Seaport, Boston, MA	- Hilton Garden Inn, M Street, Washington, DC
- The Boxer, Boston, MA	- Residence Inn Miami Coconut Grove, Coconut Grove, FL
- Hampton Inn Seaport, Seaport, New York, NY	- The Winter Haven Hotel Miami Beach, Miami, FL
- The Duane Street Hotel, New York, NY	- The Blue Moon Hotel Miami Beach, Miami, FL
- Holiday Inn Express Chelsea, 29th Street, New York, NY	- Cadillac Hotel & Beach Club, Miami, FL
- Gate Hotel JFK Airport, New York, NY	- The Parrot Key Hotel & Villas, Key West, FL
- Hilton Garden Inn JFK Airport, New York, NY	- TownePlace Suites, Sunnyvale, CA
- NU Hotel, Brooklyn, New York, NY	- The Ambrose Hotel, Santa Monica, CA
- Hyatt House White Plains, White Plains, NY	- Courtyard by Marriott Downtown San Diego, San Diego, CA
- Hampton Inn Center City/ Convention Center, Philadelphia, PA	- The Pan Pacific Hotel Seattle, Seattle, WA
- The Rittenhouse, Philadelphia, PA	- Mystic Marriott Hotel & Spa, Groton, CT
- Philadelphia Westin, Philadelphia, PA	- Sheraton Wilmington South, New Castle, DE

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 5 – DEBT (CONTINUED)

The interest rate for borrowings under the Line of Credit and Term Loans are based on a pricing grid with a range of one month U.S. LIBOR plus a spread. The following table summarizes the balances outstanding and interest rate spread for each borrowing:

Borrowing	Spread	Outstanding Balance December 31, 2018	December 31, 2017
Line of Credit	1.50% to 2.45%	$10,000	$ 16,100
Unsecured Term Loan:			
First Term Loan	1.45% to 2.20%	207,000	225,000
Second Term Loan	1.50% to 2.25%	300,000	300,000
Third Term Loan	1.45% to 2.20%	193,900	193,900
Deferred Loan Costs		$(2,698)	(3,451)
Total Unsecured Term Loan		$698,202	$ 715,449

The Credit Facility and the Term Loans include certain financial covenants and require that we maintain: (1) a minimum tangible net worth (calculated as total assets, plus accumulated depreciation, less total liabilities, intangibles and other defined adjustments) of $1,075,000, plus an amount equal to 75% of the net cash proceeds of all issuances and primary sales of equity interests of the parent guarantor or any of its subsidiaries consummated following the closing date; (2) annual distributions not to exceed 95% of adjusted funds from operations; and (3) certain financial ratios, including the following:

- a fixed charge coverage ratio of not less than 1.50 to 1.00,
- a maximum leverage ratio of not more than 60%; and
- a maximum secured debt leverage ratio of 45%

The Company is in compliance with each of the covenants listed above as of December 31, 2018.

The Company recorded interest expense of $31,189, $24,066 and $17,332 related to borrowings drawn on each of the aforementioned credit facilities, for the years ended December 31, 2018, 2017 and 2016, respectively. The weighted average interest rate on our credit facilities was 3.83%, 3.36% and 2.82% for the years ended December 31, 2018, 2017 and 2016, respectively.

Aggregate annual principal payments for the Company's credit facility, unsecured term loan and mortgages and subordinated notes payable for the five years following December 31, 2018 and thereafter are as follows:

Year Ending December 31,	Amount
2019	$102,370
2020	346,022
2021	277,731
2022	218,902
2023	21,929
Thereafter	130,390
Net Unamortized Premium	1,304
	$1,098,648

Capitalized Interest

We utilize cash, mortgage debt and our unsecured credit facility to finance on-going capital improvement projects at our hotels. Interest incurred on mortgages and the revolving credit facility that relates to our capital improvement projects is capitalized through the date when the assets are placed in service. For the years ended December 31, 2018, 2017 and 2016, we capitalized $661, $76 and $0 respectively, of interest expense related to these projects.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 5 – DEBT (CONTINUED)

Deferred Financing Costs

As noted above, costs associated with entering into mortgages, notes payable, unsecured term loan and our credit facilities are deferred and amortized over the life of the debt instruments. The deferred costs related to mortgages, term loans and unsecured notes payable are presented as reduction in the respective debt balances. Amortization of deferred costs for the years ended December 31, 2018, 2017 and 2016 was $2,278, $2,264 and $2,632 respectively.

New Debt/Refinance

On April 13, 2018, we entered into a mortgage debt with a principal balance of $28,000 secured by the Annapolis Waterfront Hotel, MD. The loan bears interest at a variable rate of one month U.S. dollar LIBOR plus 2.65% and matures in April 2024. Concurrently, we entered into an interest rate cap which effectively caps LIBOR at 3.35%, limiting the interest rate to not exceed 6.00% per annum until May 2021.

On January 31, 2018, we refinanced the outstanding debt with an original principal balance of $25,000 secured by the Capitol Hill Hotel, Washington, D.C. The loan was due to mature on January 31, 2018, but will now mature on January 31, 2021.

On August 10, 2017, we amended and restated our existing credit facility, which now consists of a $250,000 senior unsecured revolving line of credit and a $225,000 senior unsecured term loan referred to above as the First Term Loan. The Credit Facility was due to expire on February 28, 2018, but will now expire on August 10, 2021. In conjunction with this transaction we recognized $280 in debt extinguishment costs.

On August 1, 2017, we refinanced the outstanding mortgage debt with an original principal balance of $35,000 secured by the Courtyard Culver City, Los Angeles, CA. The loan was due to mature on September 29, 2017, but will now mature on August 1, 2021. We incurred approximately $32 in expense in third party fees.

On February 24, 2017, we refinanced the outstanding mortgage debt with an original principal balance of $45,000 secured by the Hilton Garden Inn, 52nd Street, NY. The loan was due to mature in May 2017, but will now mature on February 24, 2020. We incurred approximately $94 in expense in third party fees.

On February 1, 2017, we issued a note payable in the amount of $3,150 with the acquisition of the Ritz Carlton Coconut Grove.

On January 31, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $9,500 secured by the Duane Street Hotel, NY, which was schedule to mature on February 1, 2017 and we incurred approximately $12 in expense related to unamortized deferred financing costs and fees.

On January 6, 2017, we repaid in full outstanding mortgage debt secured by the Hyatt House Scottsdale, AZ, the Hyatt House Pleasant Hill, CA, and the Hyatt House Pleasanton, which all matured on that date. These properties had a combined original principal balance of $51,428 and we incurred approximately $47 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $21,000 secured by the Hilton Garden Inn, JFK Airport, New York, NY. The loan was due to mature on March 7, 2017, and we incurred approximately $37 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $43,000 secured by the Mystic Marriott Hotel & Spa, Groton, CT. The loan was due to mature in August of 2018, and we incurred approximately $84 in expense related to unamortized deferred financing costs and fees.

On November 30, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $6,700 secured by the Holiday Inn Express, Chester, NY. The loan was due to mature on March 1, 2017, and we incurred approximately $94 in expense related to unamortized deferred financing costs and fees.

On October 6, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $13,720 secured by the Hyatt House, Gaithersburg, MD. The loan was due to mature on January 6, 2017, and we incurred approximately $5 in expense related to unamortized deferred financing costs and fees.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 5 – DEBT (CONTINUED)

On October 6, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $33,030 secured by the Hyatt House, White Plains, NY. The loan was due to mature on January 6, 2017, and we incurred approximately $12 in expense related to unamortized deferred financing costs and fees.

On September 5, 2016, we repaid outstanding mortgage debt with an original principal balance of $55,000 secured by the Holiday Inn Express 29th Street, NY. The loan was due to mature on November 5, 2016, and we incurred approximately $42 in expense related to unamortized deferred financing costs and fees. We also recognized $133 of gain in unamortized original issue premiums related to the property.

On August 2, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $19,250 secured by the Hampton Inn Seaport, NY. The loan was due to mature on October 8, 2016, and we incurred approximately $67 in expense related to unamortized deferred financing costs and fees.

On August 2, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $25,000 secured by the Courtyard Alexandria, VA. The loan was due to mature on October 5, 2016, and we incurred approximately $9 in expense related to unamortized deferred financing costs and fees.

On April 29, 2016, we repaid in full the two mortgages related to the Hampton Inn Herald Square, NY and Hampton Inn Chelsea, NY, two properties contributed to the joint venture with Cindat. The mortgage debt secured by Hampton Inn Herald Square had an original balance of $26,500 and was due to mature on May 1, 2016. The mortgage debt secured by Hampton Inn Chelsea had an original balance of $36,000 and was due to mature on October 1, 2016. In addition, due to our contribution of certain of the borrowing base properties to the Cindat joint venture we were required to pay down $39,480 of the First Term Loan. We incurred a total of $1,049 in expense related to the payment of fees to extinguish debt and related to unamortized deferred financing costs associated with the mortgage debt and term loan repayments.

On February 29, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $8,500 secured by the Hawthorn Suites, Franklin, MA. The loan was due to mature on May 1, 2016, and we incurred approximately $42 in expense related to unamortized deferred financing costs and fees.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned TRS, 44 New England Management Company, and certain of our joint venture entities engage eligible independent contractors in accordance with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, including Hersha Hospitality Management Limited Partnership (“HHMLP”), as the property managers for hotels it leases from us pursuant to management agreements. HHMLP is owned, in part, by certain executives and trustees of the Company. Our management agreements with HHMLP provide for five-year terms and are subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, HHMLP must qualify as an “eligible independent contractor” during the term of the management agreements. Under the management agreements, HHMLP generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by HHMLP in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. HHMLP is not obligated to advance any of its own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee and, if a hotel exceeds certain thresholds, an incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of gross revenues associated with each hotel managed for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotels. For the years ended December 31, 2018, 2017 and 2016, base management fees incurred totaled $13,309, $13,447 and $13,048 respectively, and are recorded as Other Hotel Operating Expenses. For the year ended December 31, 2018, 2017 and 2016, incentive management fees incurred totaled $98, $0 and $0 respectively.

Franchise Agreements

Our branded hotel properties are operated under franchise agreements assumed by the hotel property lessee. The franchise agreements have 10 to 20 year terms, but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The franchise agreements require annual payments for franchise royalties, reservation, and advertising services, and such payments are based upon percentages of gross room revenue. These payments are paid by the hotels and charged to expense as incurred. Franchise fee expenses for the years ended December 31, 2018, 2017 and 2016 were $22,802, $23,645 and $24,477 respectively, and are recorded in Other Hotel Operating Expenses. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Accounting and Information Technology Fees

Each of the wholly-owned hotels and consolidated joint venture hotel properties managed by HHMLP incurs a monthly accounting and information technology fee. Monthly fees for accounting services are between $2 and $3 per property and monthly information technology fees range from $1 to $2 per property. For the years ended December 31, 2018, 2017 and 2016, the Company incurred accounting fees of $1,235, $1,318 and $1,423 respectively. For the years ended December 31, 2018, 2017 and 2016, the Company incurred information technology fees of $402, $434 and $458 respectively. Accounting fees and information technology fees are included in Other Hotel Operating Expenses.

Capital Expenditure Fees

HHMLP charges a 5% fee on certain capital expenditures and pending renovation projects at the properties as compensation for procurement services related to capital expenditures and for project management of renovation projects. For the years ended December 31, 2018, 2017 and 2016, we incurred fees of $2,511, $1,125 and $1,255 respectively, which were capitalized with the cost of fixed asset additions.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

Acquisitions from Affiliates

We have entered into an option agreement with certain of our officers and trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

Hotel Supplies

For the years ended December 31, 2018, 2017 and 2016, we incurred charges for hotel supplies of $470, $215 and $144 respectively. For the years ended December 31, 2018, 2017 and 2016, we incurred charges for capital expenditure purchases of $2,258, $2,099 and $2,166 respectively. These purchases were made from Hersha Purchasing and Design, a hotel supply company owned, in part, by certain executives and trustees of the Company. Hotel supplies are expensed and included in Hotel Operating Expenses on our consolidated statements of operations, and capital expenditure purchases are included in investment in hotel properties on our consolidated balance sheets. We incurred charges of $0 and approximately $6 in accounts payable at December 31, 2018 and December 31, 2017, respectively.

Due From Related Parties

The due from related parties balance as of December 31, 2018 and December 31, 2017 was approximately $3,294 and $5,322, respectively. The balances primarily consisted of working capital deposits made to HHMLP and other entities owned, in part, by certain executives and trustees of the Company.

Due to Related Parties

The balance due to related parties as of December 31, 2018 and December 31, 2017 was $0.

Hotel Ground Leases and Office Leases

For the years ended December 31, 2018, 2017 and 2016 we incurred $4,228, $3,460 and $3,600 respectively, of rent expense payable pursuant to ground leases related to certain hotel properties. For the years ended December 31, 2018, 2017, and 2016 we incurred $785, $735, and $508 respectively, of rent expense pursuant to office leases, which is recorded within general and administrative expenses in the Consolidated Statements of Operations.

Future minimum lease payments (without reflecting future applicable Consumer Price Index increases) under these agreements are as follows:

Year Ending December 31,	Amount
2019	$4,585
2020	4,638
2021	4,705
2022	4,167
2023	4,149
Thereafter	270,978
	$293,222

Litigation

We are not presently subject to any material litigation nor, to our knowledge, is any other 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 business or financial condition.

NOTE 7 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Fair Value Measurements

Our determination of fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we utilize a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of December 31, 2018, the Company's derivative instruments represented the only financial instruments measured at fair value. Currently, the Company uses derivative instruments, such as interest rate swaps and caps, to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. However, as of December 31, 2018 we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Derivative Instruments

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates. The table on the following page presents our derivative instruments as of December 31, 2018 and 2017.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 7 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

Hedged Debt	Type	Strike Rate	Index	Effective Date	Derivative Contract Maturity Date	Notional Amount	Estimated Fair Value Asset / (Liability) Balance December 31, 2018	December 31, 2017
Term Loan Instruments:								
Unsecured Credit Facility	Swap	1.011 %	1-Month LIBOR + 2.20%	November 3, 2016	October 3, 2019	150,000	$1,741	$ 2,362
Unsecured Credit Facility	Swap	1.694 %	1-Month LIBOR + 2.20%	April 3, 2017	October 3, 2019	50,000	320	187
Unsecured Credit Facility (1)	Swap	1.866 %	1-Month LIBOR + 2.25%	August 10, 2017	August 10, 2020	300,000	2,287	1,100
Unsecured Credit Facility	Swap	2.654 %	1-Month LIBOR + 2.20%	January 10, 2019	January 10, 2021	103,500	(314)	—
Unsecured Credit Facility	Swap	2.654 %	1-Month LIBOR + 2.20%	January 10, 2019	January 10, 2021	103,500	(315)	—
Mortgages:								
Hyatt, Union Square, New York, NY	Cap	3.000 %	1-Month LIBOR + 2.30%	June 10, 2015	June 10, 2019	55,750	—	3
Hilton Garden Inn 52nd Street, New York, NY	Swap	1.600 %	1-Month LIBOR + 2.90%	February 24, 2017	February 24, 2020	44,325	479	340
Courtyard, LA Westside, Culver City, CA	Swap	1.683 %	1-Month LIBOR + 2.75%	August 1, 2017	August 1, 2020	35,000	458	290
Annapolis Waterfront Hotel, MD	Cap	3.350 %	1-Month LIBOR + 2.65%	May 1, 2018	May 1, 2021	28,000	22	—
							$4,678	$ 4,282

(1) On March 23, 2017, we entered into an interest rate swap associated with our $300,000 of our unsecured credit facility, which became effective beginning on August 10, 2017. This swap effectively fixes the interest rate of the notional amount at 3.6930% from the effective date through August 9, 2018. For the period from August 10, 2018 to August 11, 2019, the interest rate will be fixed at 4.1155%. For the period from August 12, 2019 through maturity, the interest rate will be fixed at 4.3925%. This swap matures on August 10, 2020.

The fair value of certain swaps and our interest rate caps is included in other assets at December 31, 2018 and December 31, 2017 and the fair value of certain of our interest rate swaps is included in accounts payable, accrued expenses and other liabilities at December 31, 2018 and December 31, 2017.

The net change in fair value of derivative instruments designated as cash flow hedges was a gain of $516, a gain of $2,536, and a gain of $1,839 for the years ended December 31, 2018, 2017 and 2016, respectively. These unrealized gains and losses were reflected on our consolidated balance sheet in accumulated other comprehensive income. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate derivative. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of $2,827 of net unrealized gains/losses from accumulated other comprehensive income as a decrease to interest expense during 2018. During 2019, the Company estimates that an additional $4,060 will be reclassified as an decrease to interest expense.

NOTE 7 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

Fair Value of Debt

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. As of December 31, 2018, the carrying value and estimated fair value of the Company’s debt were $1,093,031 and $1,082,485, respectively. As of December 31, 2017, the carrying value and estimated fair value of the Company’s debt were $1,093,013 and $1,073,190, respectively.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 8 – SHARE BASED PAYMENTS

We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to performance awards that are contingent upon market-based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period. As discussed in Note 1 forfeitures of share-based awards are expensed as they occur.

The Company established and our shareholders approved the Hersha Hospitality Trust 2012 Equity Incentive Plan, as amended, (the "2012 Plan") for the purpose of attracting and retaining executive officers, employees, trustees and other persons and entities that provide services to the Company.

Executives & Employees

Annual Long Term Equity Incentive Programs

To further align the interests of the Company's executives with those of shareholders, the Compensation Committee grants annual long term equity incentive awards that are both "performance based" and "time based."

On March 8, 2018, the Compensation Committee approved the 2018 Annual Long Term Equity Incentive Program ("2018 Annual EIP") for the executive officers, pursuant to which the executive officers are eligible to earn equity awards in the form of stock awards, LTIP Units, or performance share awards issuable pursuant to the 2012 Plan. These awards are earned under the 2018 Annual EIP based on achieving a threshold, target or maximum level of performance in the performance of RevPAR growth in certain defined areas. In addition, the Compensation Committee provided the option to the executive officers to elect shares in lieu of cash payment under the 2018 annual cash incentive program ("2018 ACIP"). The Company accounts for these grants as performance awards for which the Company assesses the probability of achievement of the performance conditions at the end of each period. As of December 31, 2018, no shares or LTIP Units have been issued in accordance with the 2012 Plan to the executive officers in settlement of 2018 Annual EIP awards.

The following table is a summary of all unvested LTIP Units issued to executives:

Issuance Date	Weighted Average Share Price	LTIP Units Issued	Vesting Period	Vesting Schedule	Units Vested December 31, 2018	Units Vested December 31, 2017	Unearned Compensation December 31, 2018	Unearned Compensation December 31, 2017
March 28, 2018 (2017 Annual EIP) (2017 ACIP)	$ 17.91	564,434	3 years	25%/year (1)(2)	144,216	—	$ 2,875	$ —
March 28, 2017 (2016 Annual EIP)	18.53	122,727	3 years	25%/year (1)	92,042	137,544	152	510
March 30, 2016 (2015 Annual EIP)	21.11	183,396	3 years	25%/year (1)	183,396	128,832	—	258
		870,557			419,654	266,376	$ 3,027	$ 768

(1) 25% of the issued shares or LTIP Units vested immediately upon issuance. In general, the remaining shares or LTIP Units vest 25% on the first through third anniversaries of the end of the performance period, which is a calendar year-end (subject to continuous employment through the applicable vesting date).

(2) The issuance includes 276,000 units issued with a 2 year cliff vesting provision.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Stock based compensation expense related to the Annual Long Term Equity Incentive Programs and 2018 ACIP of $7,225, $6,062 and $4,800 was incurred during the years ended December 31, 2018, 2017 and 2016, respectively. Unearned compensation related to the Annual Long Term Equity Incentive Programs as of December 31, 2018 and December 31, 2017 was $3,027 and $768, respectively.

Unearned compensation related to the grants and amortization of LTIP Units is included in Noncontrolling Interests on the Company's Consolidated Balance Sheets and Consolidated Statements of Equity.

Multi-Year Long Term Equity Incentive Programs

On March 8, 2018, the Compensation Committee approved the 2018 Multi-Year Long Term Equity Incentive Program ("2018 Multi-Year EIP"). This program has a three-year performance period which commenced on January 1, 2018 and ends December 31, 2020. As of December 31, 2018, no shares or LTIP Units have been issued to the executive officers in settlement of 2018 Multi-Year EIP awards.

The following table is a summary of the approved Multi-Year Long Term Equity Incentive Programs:

					Units Vested		Unearned Compensation	
Compensation Committee Approval Date	Weighted Average Share Price	LTIP Units Issued	LTIP Issuance Date	Performance Period	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
March 8, 2018 (2018 Multi-Year EIP)	$ 11.06	—	N/A	1/1/2018 to 12/31/2020	—	—	$1,306	$ —
March 10, 2017 (2017 Multi-Year EIP)	9.25	—	N/A	1/1/2017 to 12/31/2019	—	—	598	898
March 17, 2016 (2016 Multi-Year EIP)	11.25	—	N/A	1/1/2016 to 12/31/2018	—	—	296	592
March 18, 2015 (2015 Multi-Year EIP)	10.06	24,672	N/A	1/1/2015 to 12/31/2017	24,672	—	—	198
		24,672			24,672	—	$2,200	$ 1,688

The shares or LTIP Units issuable under the Multi-Year Long Term Incentive Programs, including the 2018 Multi-Year EIP, are based on the Company's achievement of a certain level of (1) absolute total shareholder return (37.50% of the award), (2) relative total shareholder return as compared to the Company's peer group (37.50% of the award), and (3) relative growth in revenue per available room (RevPar) compared to the Company's peer group (25% of the award).

The Company accounts for the total shareholder return components of these grants as market based awards where the Company estimates unearned compensation at the grant date fair value which is then amortized into compensation cost over the vesting period of each individual plan. The Company accounts for the RevPAR component of the grants as performance-based awards for which the Company assesses the probable achievement of the performance conditions at the end of the reporting period.

Stock based compensation expense of $2,088, $1,598 and $1,869 was recorded for the years ended December 31, 2018, 2017 and 2016, respectively, for the Multi-Year Long Term Equity Incentive Programs. Unearned compensation related to the multi-year program as of December 31, 2018 and December 31, 2017, respectively, was $2,200 and $1,688.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Restricted Share Awards

In addition to share based compensation expense related to awards to executives under the Multi-Year and Annual Long Term Equity Incentive Programs, share based compensation expense related to restricted common shares issued to employees of the Company of $820, $620 and $541 was incurred during the years ended December 31, 2018, 2017 and 2016 respectively. Unearned compensation related to the restricted share awards as of December 31, 2018 and December 31, 2017 was $703 and $648, respectively. The following table is a summary of all unvested share awards issued to employees under the 2012 Plan and prior equity incentive plans:

					Shares Vested		Unearned Compensation	
Original Year of Issuance Date	Shares Issued	Weighted Average Share Price	Vesting Period	Vesting Schedule	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
2018	40,451	17.91-22.65	1 - 4 years	25-100%/year	2,189	—	$ 515	$ —
2017	41,895	18.47-18.53	2 years	50% /year	24,111	885	174	515
2016	29,294	18.02-21.11	2 years	50% /year	29,294	18,160	—	84
2015	15,703	28.09	2-4 years	25-50% /year	14,469	20,815	14	49
Total	86,892				70,063	39,860	$ 703	$ 648

Trustees

Board Fee Compensation

The Compensation Committee approved a program that allows the Company’s trustees to make a voluntary election to receive any portion of their board fee compensation in the form of common equity valued at a 25% premium to the cash that would have been received. On December 31, 2018, we issued 10,863 shares which do not fully vest until December 31, 2019. Compensation expense incurred for the years ended December 31, 2018, 2017 and 2016, respectively, was $202, $94 and $112.

The following table is a summary of all unvested share awards issued to trustees in lieu of board fee compensation:

					Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on Date of Grant	Vesting Period	Vesting Schedule	December 31, 2018	December 31, 2017
December 29, 2018	10,863	$17.54	12 months	100%	$ 191	$ —
December 30, 2017	11,587	$17.40	12 months	100%	—	202
Total	22,450				$ 191	$ 202

Multi-Year Long-Term Equity Incentives

Compensation expense for the Multi-Year Long Term Incentive Programs for the Company’s trustees incurred for the years ended December 31, 2018, 2017 and 2016, respectively, was $106, $78 and $61. Unearned compensation related to the Multi-Year Long Term Equity Incentive Programs was $298 and $247 as of December 31, 2018 and December 31, 2017, respectively.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

The following table is a summary of all unvested share awards issued to trustees under the 2012 Plan and prior equity incentive plans:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Weighted Average Share Price	Shares Issued	Vesting Period	Vesting Schedule	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
December 31, 2018	$ 17.54	9,000	3 years	33% /year	—	—	$ 158	$ —
December 29, 2017	17.40	9,000	3 years	33% /year	3,000	—	104	157
December 30, 2016	21.50	5,000	3 years	33% /year	3,335	1,670	36	72
March 30, 2016	21.11	2,500	3 years	33% /year	2,500	1,670	—	18
					8,835	3,340	$ 298	$ 247

Share Awards

Compensation expense related to share awards issued to the Company's trustees of $680, $593 and $535 was incurred during the years ended December 31, 2018, 2017 and 2016, respectively and is recorded in general and administrative expense on the statement of operations. Share grants issued to the Company's trustees are immediately vested. On December 31, 2018, an aggregate of 15,000 shares were issued to the Company's trustees at a price per share on the date of grant of $17.54. On June 5, 2018, an aggregate of 19,752 shares were issued to the Company's trustees at a price per share on the date of grant of $21.24.

Non-employees

The Company issues share based awards as compensation to non-employees for services provided to the Company consisting primarily of restricted common shares. The Company recorded share based compensation expense of $315, $241 and $130 for the years ended December 31, 2018, 2017 and 2016, respectively. Unearned compensation related to the restricted share awards as of December 31, 2018 and December 31, 2017 was $126 and $135, respectively. The following table is a summary of all unvested share awards issued to non-employees under the Company's 2012 Plan:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on Date of Grant	Vesting Period	Vesting Schedule	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
March 28, 2018	14,325	$17.91	2	50% /year	7,274	—	$ 126	$ —
March 30, 2017	14,925	$18.53	2	50% /year	14,925	7,625	—	135
Total	29,250				22,199	7,625	$ 126	$ 135

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 9 – EARNINGS PER SHARE

The following table is a reconciliation of the income or loss (numerator) and the weighted average shares (denominator) used in the calculation of basic and diluted earnings per common share. The computation of basic and diluted earnings per share is presented below.

	Twelve Months Ended December 31,		
	2018	2017	2016
NUMERATOR:			
Basic and Diluted*			
Net Income	$8,365	$104,940	$121,457
Income allocated to Noncontrolling Interests	1,625	(5,072)	(4,477)
Distributions to Preferred Shareholders	(24,174)	(24,169)	(17,380)
Dividends Paid on Unvested Restricted Shares and LTIP Units	(740)	(341)	(503)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	—	—	(4,021)
Net (Loss) Income from Continuing Operations attributable to Common Shareholders	$(14,924)	$75,358	$95,076
DENOMINATOR:			
Weighted average number of common shares - basic	39,383,763	41,423,804	42,957,199
Effect of dilutive securities:			
Restricted Stock Awards and LTIP Units (unvested)	—	216,225	278,588
Contingently Issued Shares and Units	—	416,402	294,944
Weighted average number of common shares - diluted	39,383,763	42,056,431	43,530,731

* Income (loss) allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units and Vested LTIP Units have been omitted from the denominator for the purpose of computing diluted earnings per share since including these amounts in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income (loss) applicable to common shareholders.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 10 – CASH FLOW DISCLOSURES AND NON CASH INVESTING AND FINANCING ACTIVITIES

Interest paid during 2018, 2017 and 2016 totaled $49,148, $40,102 and $42,449 respectively. Cash paid for income taxes during 2018, 2017 and 2016 were $1,140, $747 and $772, respectively. The following non-cash investing and financing activities occurred during 2018, 2017 and 2016:

	2018	2017	2016
Common Shares issued as part of the Dividend Reinvestment Plan	$ 77	$ 81	$ 63
Acquisition of hotel properties:			
Assets acquired through joint venture assignment and assumption	—	49,999	—
Debt assumed, including premium	—	44,483	55,350
Deposit paid in prior period towards acquisition which closed in current period	1,000	—	5,000
Deferred Tax Liability	—	—	3,281
Conversion of note payable and accrued interest to Non-Controlling Interest	3,387	—	—
Conversion of Common Units to Common Shares	1,173	392	—
Issuance of share based payments	13,661	9,572	11,272
Accrued payables for fixed assets placed into service	2,912	3,403	1,689
Contribution of fixed assets to joint venture	—	—	264,658
Cumulative Effect on Equity from the Adoption of ASC Subtopic 610-20	129,021	—	—
Adjustment to Record Non-Controlling Interest at Redemption Value	2,708	—	—

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows for the year ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Cash and cash equivalents	$32,598	$17,945	$185,644
Escrowed cash	8,185	7,641	8,993
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$40,783	$25,586	$194,637

Amounts included in restricted cash represent those required to be set aside in escrow by contractual agreement with various lenders for the payment of specific items such as property insurance, property tax, and capital expenditures.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 11 – SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS IN PARTNERSHIP

Common Shares

The Company's outstanding common shares have been duly authorized, and are fully paid and non-assessable. Common shareholders are entitled to receive dividends if and when authorized and declared by the Board of Trustees of the Company out of assets legally available and to share ratably in the assets of the Company legally available for distribution to its shareholders in the event of its liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities of the Company.

Preferred Shares

The Declaration of Trust authorizes our Board of Trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any series from time to time in one or more series, as authorized by the Board of Trustees. Prior to issuance of shares of each series, the Board of Trustees is required by Maryland REIT Law and our Declaration of Trust to set for each such series, subject to the provisions of our Declaration of Trust regarding the restriction on transfer of shares of beneficial interest, the terms, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our Board of Trustees could authorize the issuance of additional preferred shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control in us that might involve a premium price for holders of common shares or otherwise be in their best interest.

Common Units

Common Units are issued in connection with the acquisition of wholly owned hotels and joint venture interests in hotel properties. The total number of Common Units outstanding as of December 31, 2018, 2017 and 2016 was 2,066,615, 2,129,422 and 1,928,938, respectively. These units can be redeemed for cash or converted to common shares, at the Company's option, on a one-for-one basis. The number of common shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidation or similar pro rata share transactions, that otherwise would have the effect of diluting the ownership interest of the limited partners or our shareholders. During 2018, 2017 and 2016, 62,807, 23,964 and 0 Common Units were converted to common shares, respectively. In addition, as noted in "Note 8 – Share Based Payments," during 2018, the Company issued 589,106 LTIP Units.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 12 – INCOME TAXES

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1999. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to its shareholders. It is the Company’s current intention to adhere to these requirements and maintain the Company’s qualification for taxation as a REIT. As a REIT, the Company generally will not be subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax for taxable years prior to 2018) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.
Taxable income from non-REIT activities managed through TRSs is subject to federal, state and local income taxes. As a TRS, 44 New England is subject to income taxes at the applicable federal, state and local tax rates.
The provision for income taxes differs from the amount of income tax determined by applying the applicable statutory federal income tax rate (21% for 2018 and 34% for 2017 and 2016) to pretax income from continuing operations as a result of the following differences:

	For the year ended December 31,		
	2018	2017	2016
Statutory federal income tax provision	$1,813	$37,469	$39,633
Adjustment for nontaxable income for Hersha Hospitality Trust	(1,269)	(37,670)	(44,078)
Remeasurement of net deferred tax asset - Tax Cuts & Jobs Act	—	4,601	—
State income taxes, net of federal income tax effect	32	338	(725)
Non-deductible expenses, tax credits, and other, net	(309)	524	282
Total income tax expense (benefit)	$267	$5,262	$(4,888)

The Tax Cuts and Jobs Act was enacted on December 22, 2017 and instituted significant changes to the federal income tax law. Effective January 1, 2018, the U.S. statutory rate applicable to the Company decreased from 34% to 21%. As a result of the decrease in statutory rate, our deferred tax assets and liabilities that will apply to future periods were remeasured as of December 31, 2017. We recognized a deferred tax expense of $4,601 during the year ended December 31, 2017 to reflect this change in the tax rate.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 12 – INCOME TAXES (CONTINUED)

The components of the Company's income tax expense (benefit) from continuing operations for the years ended December 31, 2018, 2017 and 2016 were as follows:

	For the year ended December 31,		
	2018	2017	2016
Income tax expense (benefit):			
Current:			
Federal	$(119)	$—	$—
State	530	—	—
Deferred:			
Federal	467	4,750	(3,790)
State	(611)	512	(1,098)
Total	$267	$5,262	$(4,888)

The components of consolidated TRS's net deferred tax asset as of December 31, 2018 and 2017 were as follows:

	As of December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$9,700	$9,881
Accrued expenses and other	1,644	1,438
Tax credit carryforwards	475	444
Total gross deferred tax assets	11,819	11,763
Valuation allowance	(497)	(497)
Total net deferred tax assets	$11,322	$11,266
Deferred tax liabilities:		
Depreciation and amortization	244	332
Total Net deferred tax assets	$11,078	$10,934

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on limitations related to the utilization of certain tax attribute carryforwards, the Company recorded a valuation allowance of approximately $497 as these attributes are not more likely than not to be realized prior to their expiration. Based on the level of historical taxable income, tax planning strategies and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, Management believes it is more likely than not that the remaining deferred tax assets will be realized.

As of December 31, 2018, we have gross federal net operating loss carryforwards of $34,262 which expire over various periods from 2023 through 2036. As of December 31, 2018, we have gross state net operating loss carryforwards of $40,343 which expire over various periods from 2019 to 2036. The Company has tax credits of $475 available which begin to expire in 2028.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 12 – INCOME TAXES (CONTINUED)

Earnings and profits, which will determine the taxability of distributions to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives and methods used to compute depreciation. The following table sets forth certain per share information regarding the Company's common and preferred share distributions for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Preferred Shares - 8% Series B			
Ordinary income	N/A	N/A	100.00 %
Return of Capital	N/A	N/A	0.00 %
Capital Gain Distribution	N/A	N/A	0.00 %
Preferred Shares - 6.875% Series C			
Ordinary income	100.00 %	100.00 %	100.00 %
Return of Capital	0.00 %	0.00 %	0.00 %
Capital Gain Distribution	0.00 %	0.00 %	0.00 %
Preferred Shares - 6.5% Series D			
Ordinary income	100.00 %	100.00 %	100.00 %
Return of Capital	0.00 %	0.00 %	0.00 %
Capital Gain Distribution	0.00 %	0.00 %	0.00 %
Preferred Shares - 6.5% Series E			
Ordinary income	100.00 %	100.00 %	N/A
Return of Capital	0.00 %	0.00 %	N/A
Capital Gain Distribution	0.00 %	0.00 %	N/A
Common Shares - Class A			
Ordinary income	37.91 %	70.95 %	100.00 %
Return of Capital	62.09 %	29.05 %	0.00 %
Capital Gain Distribution	0.00 %	0.00 %	0.00 %

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 13 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Hotel Operating Revenues:				
Room	$79,048	$109,492	$103,958	$105,409
Food & Beverage	13,538	17,001	15,628	18,379
Other	6,929	7,269	8,143	8,884
Other Revenues	3,544	84	170	1,870
Hotel Operating Expenses:				
Room	19,356	22,945	23,615	22,747
Food & Beverage	11,851	13,331	12,475	14,465
Other	35,575	40,383	40,205	41,901
Other Expenses	47,879	44,717	46,514	53,839
(Loss) Income from Unconsolidated Joint Ventures	(201)	537	582	166
Income (Loss) from Continuing Operations	(11,803)	13,007	5,672	1,756
Income Tax (Expense) Benefit	2,655	(1,170)	(2,685)	933
Net Income	(9,148)	11,837	2,987	2,689
Income (loss) Allocated to Noncontrolling Interests in Continuing Operations	(1,104)	500	(72)	(240)
Income (loss) Allocated to Noncontrolling Interests - Consolidated Joint Venture	—	(1,200)	250	241
Preferred Distributions	6,044	6,043	6,044	6,043
Net Income (Loss) applicable to Common Shareholders	$(14,088)	$6,494	$(3,235)	$(3,355)
Earnings per share:				
Basic Net Income (Loss) applicable to Common Shareholders	$(0.36)	$0.16	$(0.09)	$(0.09)
Diluted Net Income (Loss) applicable to Common Shareholders	$(0.36)	$0.16	$(0.09)	$(0.09)
Weighted Average Common Shares Outstanding				
Basic	39,636,166	39,246,946	39,321,062	39,334,877
Diluted	39,636,166	39,926,099	39,321,062	39,334,877

	Year Ended December 31, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Hotel Operating Revenues:				
Room	$90,769	$114,461	$107,695	$98,224
Food & Beverage	10,736	15,010	14,775	17,970
Other	6,447	7,545	7,040	6,468
Other Revenues	34,867	71,912	63	794
Hotel Operating Expenses:				
Room	21,304	23,749	23,823	21,840
Food & Beverage	9,557	11,856	12,509	13,984
Other	36,406	40,917	40,585	38,520
Other Expenses	43,468	47,667	51,256	54,660
(Loss) Income from Unconsolidated Joint Ventures	(3,886)	711	538	164

(Loss) Income from Continuing Operations	28,198	85,450	1,938	(5,384)
Income Tax Benefit	(2,243)	(662)	1,325	(3,682)
Net (Loss) Income	25,955	84,788	3,263	(9,066)
(Loss) Income Allocated to Noncontrolling Interests in Continuing Operations	1,181	4,758	(90)	(776)
Preferred Distributions	6,042	6,042	6,040	6,045
Net (Loss) Income applicable to Common Shareholders	$18,732	$73,988	$(2,687)	$(14,335)
Earnings per share:				
Basic Net (Loss) Income applicable to Common Shareholders	$0.45	$1.77	$(0.07)	$(0.36)
Diluted Net (Loss) Income applicable to Common Shareholders	$0.44	$1.75	$(0.07)	$(0.36)
Weighted Average Common Shares Outstanding				
Basic	41,716,958	41,737,044	41,721,425	40,529,569
Diluted	42,110,911	42,207,841	41,721,425	40,529,569

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2018
[IN THOUSANDS]

		Initial Costs		Costs Capitalized Subsequent to Acquisition (1)		Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	Net Book Value	
Description	Encumbrances	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total	Buildings & Improvements	Land, Buildings & Improvements*	Date of Acquisit
Courtyard by Marriott Brookline, Brookline, MA		—	47,414	—	4,873	—	52,287	52,287	(18,945)	33,342	06/16/05
Annapolis Waterfront Hotel, Annapolis, MD	(28,000)	—	43,251	—	40	—	43,291	43,291	(811)	42,480	03/28/18
Hilton Garden Inn JFK, JFK Airport, NY		—	25,018	—	3,102	—	28,120	28,120	(10,519)	17,601	02/16/06
Holiday Inn Express Cambridge, Cambridge, MA		1,956	9,793	—	2,871	1,956	12,664	14,620	(5,437)	9,183	05/03/06
Hyatt House White Plains, White Plains, NY		8,823	30,273	—	10,351	8,823	40,624	49,447	(12,536)	36,911	12/28/06
Hampton Inn Seaport, Seaport, NY		7,816	19,040	—	1,438	7,816	20,478	28,294	(6,580)	21,714	02/01/07
Gate Hotel JFK Airport, JFK Airport, NY		—	27,315								