Pebblebrook Hotel Trust
Form 10-K
February 23, 2017

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number 001-34571

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

Maryland (State of Incorporation or Organization)	27-1055421 (I.R.S. Employer Identification No.)
7315 Wisconsin Avenue, 1100 West Bethesda, Maryland (Address of Principal Executive Offices)	20814 (Zip Code)

(240) 507-1300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, $0.01 par value per share	New York Stock Exchange
6.50% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 par value per share	New York Stock Exchange
6.375% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer Accelerated filer ¨

Non-accelerated filer ¨ (do not check if a smaller reporting company) Smaller reporting company ¨

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

The aggregate market value of the 70,754,467 common shares of beneficial interest of the registrant held by non-affiliates of the registrant was $1.9 billion based on the closing sale price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2016.

The number of common shares of beneficial interest outstanding as of February 15, 2017 was 72,117,476.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission on or before April 30, 2017) are incorporated by reference into this Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

Pebblebrook Hotel Trust

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FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I
Item 1. Business.

General

Pebblebrook Hotel Trust is an internally managed hotel investment company, organized in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major U.S. cities, with an emphasis on the major gateway coastal markets. As of December 31, 2016, the Company owned 29 hotels with a total of 7,219 guest rooms.

Substantially all of the Company's assets are held by, and all of the operations are conducted through, Pebblebrook Hotel, L.P. (our "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 2016, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a REIT under the Code, it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL"), the Company's taxable REIT subsidiary ("TRS"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company's financial statements.

Business Objectives and Strategies

Acquisitions/Investments

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

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

- premier locations, facilities and other competitive advantages not easily replicated;
- high barriers-to-entry in the market, such as scarcity of development sites, regulatory hurdles, high per-room development costs and long lead times for new development;
- acquisition prices at a discount to replacement cost;
- properties not subject to long-term management contracts with hotel management companies;
- potential return on investment initiatives, including redevelopment, rebranding, redesign, expansion and change of management;

- opportunities to implement value-added operational improvements; and

- strong demand growth characteristics supported by favorable demographic indicators.

We believe that upper-upscale, full-service hotels and resorts and upscale, select-service hotels located in major U.S. urban, convention and drive-to and destination resort markets are likely to generate the most favorable returns on investment in the lodging industry over the long-term. Nationally, new hotel supply growth has increased from its historically low levels and is generally in-line with demand growth. Industry occupancy levels are expected to remain flat. Supply growth has increased, particularly in certain of our markets, as construction financing has become more available and fundamentals continue to strengthen. This may impact the ability of our hotels to increase room rates. We believe that portfolio diversification will allow

us to capitalize from growth in various customer segments, including business transient, leisure transient and group and convention room-night demand, as well as mitigate the negative impact from increases in hotel room supply.

We generally seek to enter into flexible management contracts, when possible, with third-party hotel management companies for the operation of our hotels that provide us with the ability to replace operators and/or reposition properties, to the extent that we determine to do so and align our operators with our objective of maximizing our return on investment. In addition, we believe that flexible management contracts facilitate the sale of hotels, and we may seek to sell hotels opportunistically if we believe sales proceeds may be invested in other hotel properties that offer more attractive risk-adjusted returns.

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

We may consider acquiring outstanding debt secured by a hotel or resort property from lenders and investors if we believe we can foreclose on or acquire ownership of the property in the near-term. In connection with our acquisitions, generally we do not intend to originate any debt financing or purchase any debt where we do not expect to gain ownership of the underlying property. Additionally, we have co-invested, and may in the future co-invest, in hotels with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for a property, partnership, joint venture or other entity.

Asset Management

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

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

Financing Strategies

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

We anticipate using our senior unsecured revolving credit facility, term loans, senior unsecured notes, common and preferred equity issuances, and mortgage debt financings to fund future acquisitions as well as for property redevelopments, return on investment initiatives and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under our senior unsecured revolving credit facility from time to time with

proceeds from periodic common and preferred equity issuances, long-term debt financings, cash flows from operations and opportunistic or strategic dispositions.

When purchasing hotel properties, we may issue limited partnership interests in our Operating Partnership as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common shares of beneficial interest, or common shares. To date, we have not issued any limited partnership interests in our Operating Partnership to purchase hotel properties.

Competition

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

The hotel industry is highly competitive. Our hotels compete with other hotels, and alternative lodging marketplaces, for guests in our markets. Competitive factors include, among others, location, convenience, brand affiliation, room rates, range of services, facilities and guest amenities or accommodations offered and quality of guest service. Competition in the markets in which our hotels operate includes competition from existing, newly renovated and newly developed hotels in the relevant segments. Competition can adversely affect the occupancy, ADR and room revenue per available room ("RevPAR") of our hotels, and thus our financial results, and may require us to provide additional amenities, incur additional costs or make capital improvements that we otherwise might not choose to make, which may adversely affect our profitability.

Seasonality

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

Regulations

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

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

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect the funds available for distribution to our shareholders. Prior to closing a property acquisition, we obtain Phase I environmental site assessments, or ESAs, in order to attempt to identify potential environmental concerns at the properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I ESAs or other information indicates

possible contamination or where our consultants recommend such procedures. However, these Phase I ESAs or other investigations may not reveal all environmental costs that might have a material adverse effect on our business, assets, results of operations or liquidity and may not identify all potential environmental liabilities.

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

Our properties must comply with Title III of the Americans with Disabilities Act (the "ADA") to the extent that such properties are “public accommodations” as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital

expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in litigation, retrofit costs and imposition of fines or an award of damages to private litigants. Additionally, properties which we may acquire may not be in compliance with the requirements of the ADA, and we endeavor to identify such noncompliance prior to our acquisition. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Tax Status

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

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

Employees

We currently employ 26 full-time employees. None of our employees is a member of a union; however, some employees of the hotel managers at several of our hotels are currently represented by labor unions and are subject to collective bargaining agreements.

Available Information

Our Internet website is located at www.pebblebrookhotels.com. Copies of the charters of the committees of our board of trustees, our code of business conduct and ethics and our corporate governance guidelines are available on our website. All reports that we have filed with the Securities and Exchange Commission (the "SEC") including this Annual Report on Form 10-K and our current reports on Form 8-K, can be obtained free of charge from the SEC's website at www.sec.gov or through our website. In addition, all reports filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Further information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors.

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

Risks Related to Our Business and Properties

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

We depend on the efforts and expertise of our Chairman, President and Chief Executive Officer, as well as our other executive officers, to execute our business strategy. The loss of their services, and our inability to quickly identify and hire suitable replacements, could have an adverse effect on our business activities, including, without limitation, relationships with shareholders, lenders, management companies, joint venture partners and other industry personnel.

Our returns could be negatively impacted if the third-party management companies that operate our hotels do not manage our hotel properties effectively.

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

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

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

Our leases with our TRS lessees require our TRS lessees to pay rent based in part on revenues from our hotels. Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, which would adversely affect our TRS lessees' ability to pay rent due under the leases, including but not limited to increases in: wage and benefit costs, which may include an increase in minimum wages and health benefit costs; repair and maintenance expenses; property taxes; insurance costs; and other operating expenses. Increases in these operating expenses can have a significant adverse impact on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

Our ability to make distributions to our shareholders is subject to fluctuations in our financial performance, operating results and capital improvements requirements.

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

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

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

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

We may enter into management contracts that contain some restrictive covenants or acquire properties subject to existing management contracts that do not allow the flexibility we seek, including management contracts that restrict our ability to terminate the contract or require us to pay significant termination fees. For example, the terms of some management contracts may restrict our ability to sell a property unless the purchaser is not a competitor of the manager and assumes the related

management contract and meets specified other conditions which may preclude us from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense.

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

Our primary business is hotel-related. Therefore, a downturn in the lodging industry, in general, and the segments and markets (especially West Coast major gateway metropolitan markets) in which we operate, in particular, would have a material adverse effect on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

We may co-invest in hotels in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for a property, partnership, joint venture or other entity. In this event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments through partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt, fail to fund their share of required capital contributions, make dubious business decisions or block or delay necessary decisions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, action by, or disputes with, partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

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

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

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

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

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

Our business strategy includes the use of both secured and unsecured debt to finance long-term growth. Incurring debt subjects us to many risks, including the risks that our cash flow from operations will be insufficient to make required payments of principal and interest, our debt may increase our vulnerability to adverse economic and industry

conditions, we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, and the terms of any refinancing will not be as favorable as the terms of the debt being refinanced.

We have placed and will continue to place mortgages on certain of our hotel properties to secure debt. To the extent we cannot meet any of our debt service obligations, we may be required to sell or we will risk losing to foreclosure some or all of our mortgaged hotel properties. If we are required to sell one or more of our hotel properties to meet debt service obligations, we may have to accept unfavorable terms. Also, covenants applicable to debt could impair our planned investment strategy and, if violated, result in a default. If we violate covenants relating to indebtedness, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. In addition, future indebtedness agreements may require that we meet certain covenant tests in order to make distributions to our shareholders.

Higher interest rates could increase debt service requirements on any of our floating rate debt, including our senior unsecured revolving credit facility, and could reduce the amounts available for distribution to our shareholders, as well as reduce funds available for our operations, future business opportunities or other purposes. We have obtained, and we may in the future obtain, one or more forms of interest rate protection - in the form of swap agreements, interest rate cap contracts or similar agreements that are consistent with our intention to remain qualified as a REIT - to “hedge” against the possible negative effects of interest rate fluctuations. However, such hedging incurs costs and we cannot assure you that any hedging will adequately relieve the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations thereunder. Adverse economic conditions could also cause the terms on which we borrow to be unfavorable.

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

Our senior executive officers have broad discretion, within the general investment criteria established by our board of trustees, to invest our capital and to determine the timing of such investments. In addition, our investment policies may be revised from time to time at the discretion of our board of trustees, without a vote of our shareholders. Such discretion could result in investments that may not yield returns consistent with expectations.

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

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

We may use a portion of the net proceeds from our public offerings to make distributions to our shareholders, which would, among other things, reduce our cash available to invest in hotel properties and may reduce the returns on your investment in our common shares.

Prior to the time we have fully invested the net proceeds of our public offerings, we may fund distributions to our shareholders out of the net proceeds of these offerings, which would reduce the amount of cash we have available to invest in hotel properties and may reduce the returns on your investment in our common shares. The use of these net proceeds for distributions to shareholders could adversely affect our financial results. In addition, funding distributions from the net proceeds of these offerings may constitute a return of capital to our shareholders, which would have the effect of reducing each shareholder's tax basis in our common shares.

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

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

significantly higher interest rates. If adverse conditions in the credit markets-in particular with respect to real estate or lodging industry finance-materially deteriorate, our business could be materially and adversely affected. Our long-term ability to grow through investments in hotel properties will be limited if we cannot obtain additional financing.

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

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

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

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

Economic conditions leading up to and following the United Kingdom's likely exit from the European Union could have an adverse effect on the lodging industry and our results of operations.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union (“Brexit”). Negotiations will determine the future terms of the United Kingdom’s relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union.

The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others the Company cannot anticipate, may have an adverse effect on the lodging industry and may adversely affect the Company’s business.

Risks Related to Debt and Financing

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

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

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

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

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization; therefore, the vast majority of the principal must be repaid at the maturity of the loan in a so-called “balloon payment.” At the maturity of these loans, assuming we do not have

sufficient funds to repay the debt, we will need to refinance this debt. If the credit environment is constrained at the time of our debt maturities,

we would have a very difficult time refinancing debt or refinancing terms may be at substantially higher interest rates and or lower proceeds. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more hotels at disadvantageous terms, including unattractive prices, or defaulting on the mortgage and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our shareholders.

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

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

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

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

We may acquire outstanding debt secured by a hotel or resort property from lenders and investors if we believe we can ultimately foreclose or otherwise acquire ownership of the underlying property in the near-term through foreclosure, deed-in-lieu of foreclosure or other means. However, if we do acquire such debt, borrowers may seek to assert various defenses to our foreclosure or other actions and we may not be successful in acquiring the underlying property on a timely basis, or at all, in which event we could incur significant costs and experience significant delays in acquiring such properties, all of which could adversely affect our financial performance and reduce our expected returns from such investments. In addition, we may not earn a current return on such investments particularly if the loan that we acquire is in default.

Risks Related to the Lodging Industry

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

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

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

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

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

rate and occupancy at each of our hotels changes every day. As a result, we may have highly volatile earnings.
In addition, our hotel properties are subject to various operating risks common to the lodging industry, many of which are beyond our control, including the following:

- competition from other hotel properties and non-hotel properties that provide nightly and short-term rentals in our markets;
- over-building of hotels in our markets, which could adversely affect occupancy and revenues at our hotel properties;
- dependence on business and commercial travelers, conventions and tourism;
- increases in energy costs, government taxes and fees, and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations (including minimum wage increases), fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- unforeseen events beyond our control, such as terrorist attacks, cyber-attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu, Zika virus and SARS, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- strength of the U.S. dollar which may reduce in-bound international travel and encourage out-bound international travel;
- adverse effects of a downturn in the lodging industry; and
- risks generally associated with the ownership of hotel properties and real estate, as we discuss in more detail below.

These factors could reduce the revenues and net operating profits of our TRS lessees, which in turn could adversely affect our financial condition, results of operations, the market price of our common shares, and our ability to make distributions to our shareholders.

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

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

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

The lodging industry is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in our revenues. Our quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors. As a result, we may have to enter into short-term borrowings in certain quarters in order to offset these fluctuations in revenues and to make distributions to our shareholders.

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

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

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

Some of the hotel properties we acquire need renovations and capital improvements at the time of acquisition and all the hotel properties we have acquired and will acquire in the future will have an ongoing need for renovations and other capital improvements, including replacement, from time to time, of furniture, fixtures and equipment. The franchisors, if any, of our hotel properties also require periodic capital improvements as a condition to our maintaining the franchise licenses. In addition, our lenders often require that we set aside annual amounts for capital improvements to our hotel properties. These capital improvements may give rise to the following risks:

- possible environmental problems;
- construction cost overruns and delays;
- the possibility that revenues will be reduced while rooms or restaurants are out of service due to capital improvement projects;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on attractive terms; and
- uncertainties as to market demand or a loss of market demand after capital improvements have begun.

The costs of renovations and capital improvements could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

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

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

We cannot assure you that any development or redevelopment project will be completed on time or within budget. Our inability to complete a project on time or within budget could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

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

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

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, hotel room demand may decrease and our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders may be adversely affected.

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

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

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

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

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

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

effect on our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

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

We maintain comprehensive property insurance on each of our hotel properties, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that coverage will remain available at reasonable rates. Various types of catastrophic losses, like earthquakes and floods, and losses from terrorist activities, may not be insurable in whole or in part or may not be available on terms that we consider acceptable.

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

Our hotels may be subject to unknown or contingent liabilities which could cause us to incur substantial costs.

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

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

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

We could be responsible for any of the costs discussed above. The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

Compliance with the Americans with Disabilities Act could require us to incur substantial costs.

Under the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. While we believe that our hotels are substantially in compliance with these requirements, a

determination to the contrary could require removal of access barriers and non-compliance could result in litigation costs, costs to remediate deficiencies, U.S. government fines or damages to private litigants.

If we are required to make substantial modifications to our hotel properties, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders could be adversely affected.

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

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

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

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

General Risks Related to the Real Estate Industry

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

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

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism.

We have acquired hotels, and may acquire additional hotels in the future, subject to ground leases or other leasehold interests. Sales of property subject to such leases may require the consent of the lessors. This consent requirement may make it more difficult or expensive to sell or finance the hotels subject to ground leases or other leasehold interests.

We may decide to sell hotel properties in the future. We cannot predict whether we will be able to sell any hotel property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel property.

We may be required to expend funds to correct defects or to make improvements before a hotel property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel property, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors

and any others that would impede our ability to respond to adverse changes in the performance of the hotel properties or a need for liquidity could adversely affect our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our shareholders.

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

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

The costs of compliance with or liabilities under environmental laws could significantly reduce our profitability.

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

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

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

Certain hotel properties we own or may own in the future may contain, or may have contained, asbestos-containing building materials ("ACBMs"). Environmental laws require that ACBMs be properly managed and maintained and may impose fines and penalties on building owners and operators for failure to comply with these requirements. Also, certain properties may be adjacent or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. These operations create a potential for the release of petroleum products or other hazardous or toxic substances. Third parties may be permitted by law to seek recovery from owners or operators for property damage and/or personal injury associated with exposure to contaminants, including, but not limited to, petroleum products, hazardous or toxic substances and asbestos fibers.

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

you that costs of future environmental compliance will not affect our ability to make distributions to our shareholders or that such costs or other remedial measures will not be material to us.

The presence of hazardous substances on a property may limit our ability to sell the property on favorable terms or at all, and we may incur substantial remediation costs. The discovery of material environmental liabilities at our properties could

subject us to unanticipated significant costs, which could significantly reduce our profitability and the cash available for distribution to our shareholders.

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

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

Risks Related to Our Organization and Structure

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

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

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

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

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

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

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

Additionally, Title 8, Subtitle 3 of the MGCL permits our board of trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement certain takeover defenses,

such as a classified board. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common shareholders with the opportunity to realize a premium over the then current market price. In October 2015, we opted out of

the classified board provision of Title 8, Subtitle 3 of the MGCL and prohibited ourselves from opting back into that provision without prior approval of our shareholders.

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

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

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

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

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

Under Maryland law, generally, a trustee's actions will be upheld if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

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

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

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

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

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

Our board of trustees determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to shareholders. Our board may amend or revise these and other policies and guidelines from time to time without the vote or consent of our shareholders. Accordingly, our shareholders will have limited control over changes in our policies and those changes could adversely affect our

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

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

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

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

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

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

Our board of trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2016, 5,000,000 shares of our 6.50% Series C Cumulative Redeemable Preferred Shares (the “Series C Preferred Shares”) and 5,000,000 shares of our 6.375% Series D Cumulative Redeemable Preferred Shares (the "Series D Preferred Shares") were issued and outstanding. The aggregate liquidation preference with respect to the outstanding preferred shares is approximately $250.0 million, and aggregate annual dividends on our outstanding preferred shares are approximately $16.1 million. Holders of Series C Preferred Shares or Series D Preferred Shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of these preferred shares are entitled to receive a liquidation preference of $25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of these preferred shares have the right to elect two additional trustees to our board of trustees whenever dividends on the preferred shares are in arrears for six or more quarterly dividends, whether or not consecutive.

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

Upon the occurrence of a change of control (as defined in our declaration of trust) as the result of which our common shares and the common securities of the acquiring or surviving entity (or American Depositary Receipts representing such securities) are not listed on the New York Stock Exchange (the “NYSE”), the NYSE MKT or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ, holders of Series C Preferred Shares or Series D Preferred Shares will have the right (unless, as provided in our declaration of trust, we have provided or provide notice of our election to redeem the applicable series) to convert some or all of their preferred shares into our common shares (or equivalent value of alternative consideration), and under these circumstances we will also have a special optional redemption right to redeem such shares. Upon such a conversion, holders of Series C Preferred Shares will be limited to a maximum number of our common shares equal to 2.0325 multiplied by the number of Series C Preferred Shares converted and holders of Series D Preferred Shares will be limited to a maximum number of our common shares equal to 1.9794 multiplied by the number of Series D Preferred

Shares converted. In addition, those features of the Series C Preferred Shares and Series D Preferred Shares may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change of control of our company under circumstances that otherwise could provide the holders of our common shares, Series C Preferred Shares or Series D Preferred Shares with the opportunity to realize a premium over the then-current market price or that shareholders may otherwise believe is in their best interests.

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

The agreements that we have entered into with our executive officers provide benefits under certain circumstances that could make it more difficult or expensive for us to terminate these officers and may prevent or deter a change of control of our company that would otherwise be in the interest of our shareholders.

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

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent auditors annually issue their own opinion on our internal controls over financial reporting. We cannot be certain that we will be successful in maintaining adequate internal controls over our financial reporting and financial processes. Furthermore, as we grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common shares. Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner.

Federal Income Tax Risk Factors

Our failure to qualify, or to remain qualified, as a REIT would result in higher taxes and reduced cash available for distribution to our shareholders.

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

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

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our shareholders.

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

- 85 percent of our REIT ordinary income for that year;
- 95 percent of our REIT capital gain net income for that year; and
- any undistributed REIT taxable income from prior years.

We have distributed, and we intend to continue to distribute, our REIT taxable income to our shareholders in a manner intended to satisfy the 90 percent distribution requirement and to avoid both corporate income tax and the 4 percent

nondeductible excise tax. However, there is no requirement that TRSs distribute their after tax net income to their parent REIT or their shareholders.

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

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

The Internal Revenue Service (the "IRS") has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by the taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/share dividends, but that revenue procedure has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. Although we have no current intention of paying dividends in the form of our own shares, if in the future we choose to pay dividends in our own shares, our shareholders may be required to pay tax in excess of the cash that they receive. If a U.S. shareholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares. If we pay dividends in our own shares and a significant number of our shareholders determine to sell our shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our shares.

Our TRS lessees increase our overall tax liability.

Our TRS lessees are subject to federal and state income tax on their taxable income, which consists of the revenues from the hotel properties leased by our TRS lessees, net of the operating expenses (including management fees) for such hotel properties and rent payments to us. Accordingly, although our ownership of our TRS lessees allows us to participate in the operating income from our hotel properties in addition to receiving rent, that operating income is fully subject to income tax. The after-tax net income of our TRS lessees is available for distribution to us.

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

A REIT may own up to 100 percent of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotel operations pursuant to hotel management contracts. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35 percent of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25 percent (20 percent for taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100 percent excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable 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 25 percent (20 percent for taxable years beginning after December 31, 2017) of the value of our total assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our

TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100 percent excise tax described above. There can be no assurance, however, that we will be able to comply with the 25 percent and 20 percent limitations discussed above or to avoid application of the 100 percent excise tax discussed above.

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

To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as "rents from real property." Rents paid to our Operating Partnership by our TRS lessees pursuant to the lease of our hotel properties constitute substantially all of our gross income. In order for such rent to qualify as "rents from real property" for purposes of the gross income tests, the leases must be respected as true leases for 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.

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

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

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT and would be subject to higher taxes and have less cash available for distribution to our shareholders.

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

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

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

The maximum tax rate applicable to "qualified dividend income" payable to U.S. shareholders that are taxed at individual rates is 20 percent. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares.

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

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75 percent or 95 percent gross income tests. To the extent that we enter into other types of hedging transactions, the income from

those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

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

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

In particular, we must ensure that at the end of each calendar quarter, at least 75 percent of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10 percent of the outstanding voting securities of any one issuer or more than 10 percent of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5 percent of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, no more than 25 percent (20 percent for taxable years beginning December 31, 2017) of the value of our total assets can be represented by the securities of one or more TRSs and no more than 25 percent of our assets can be represented by debt of "publicly offered REITs" (i.e. REITs that are required to file annual and periodic reports with the SEC under the Exchange Act) that is not secured by real property or interests in real property. The Code provides that temporary investments of new capital in stock or debt instruments for the period of one year beginning on the date on which we receive the new capital will be considered qualified real estate assets for purposes of the above requirements. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

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

Our Operating Partnership owns 100% of the common shares of each of two subsidiary REITs that have elected to be taxed as REITs under the federal income tax laws. Our subsidiary REITs are subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If one or both of our subsidiary REITs were to fail to qualify as a REIT, then (i) such subsidiary REITs would become subject to federal income tax and (ii) our ownership of shares in such subsidiary REITs would cease to be a qualifying asset for purposes of the asset tests applicable to REITs. If our subsidiary REITs were to fail to qualify as a REIT, it is possible that we would fail certain of the asset tests applicable to REITs, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. We have made “protective” TRS elections with respect to each of our subsidiary REITs and may implement other protective arrangements intended to avoid such an outcome if our subsidiary REITs were not to qualify as a REIT, but there can be no assurance that such “protective” elections and other arrangements will be effective to avoid the resulting adverse consequences to us. Moreover, even if the “protective” TRS elections were to be effective in the event of the failure of our subsidiary REITs to qualify as a REIT, such subsidiary REITs would be subject to federal income tax and we cannot assure you that we would not fail to satisfy the requirement that not more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets may be represented by the securities of one or more TRSs. In this event, we would fail to qualify as a REIT unless we or such subsidiary REITs could avail ourselves or themselves of certain relief provisions.

The ability of our board of trustees to revoke our REIT qualification without shareholder approval may subject us to federal and state income tax and reduce distributions to our shareholders.

Our declaration of trust provides that our board of trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify

as a REIT. If we cease to be a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders and on the market price of our common shares.

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

At any time, the federal income tax laws governing REITs or the administrative and judicial interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative and judicial interpretation, or any amendment to any existing federal income tax law, regulation or administrative or judicial interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. In addition, according to publicly released statements, a top legislative priority of the Trump administration and Congress may be significant reform of the Code, including significant changes to taxation of business entities. There is a substantial lack of clarity around both the timing and the details of any such tax reform and the impact of any potential tax reform on an investment in us. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative and judicial interpretation.

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

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

Our declaration of trust, with certain exceptions, authorizes our board of trustees to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, our declaration of trust prohibits any person from beneficially or constructively owning more than 9.8 percent (measured by value or number of shares, whichever is more restrictive) of any class or series of our shares. Our board of trustees may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8 percent of the value of our outstanding shares would result in the termination of our qualification as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of trustees determines that it is no longer in our best interest to continue to qualify as a REIT.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease our headquarters located at 7315 Wisconsin Avenue, 1100 West, Bethesda, Maryland 20814.

At December 31, 2016, we owned 29 hotels with a total of 7,219 guest rooms.

The following table sets forth certain information about the hotels we wholly owned as of December 31, 2016, all of which are consolidated in our financial statements.

	Property		Date Acquired	Location	Number of Guest Rooms
1.	Sir Francis Drake		June 22, 2010	San Francisco, CA	416
2.	InterContinental Buckhead Atlanta		July 1, 2010	Buckhead, GA	422
3.	Hotel Monaco Washington DC	(1)	September 9, 2010	Washington, D.C.	183
4.	The Grand Hotel Minneapolis		September 29, 2010	Minneapolis, MN	140
5.	Skamania Lodge		November 3, 2010	Stevenson, WA	256
6.	Le Meridien Delfina Santa Monica		November 19, 2010	Santa Monica, CA	310
7.	Sofitel Philadelphia	(2)	December 3, 2010	Philadelphia, PA	306
8.	Argonaut Hotel	(1)	February 16, 2011	San Francisco, CA	252
9.	The Westin San Diego Gaslamp Quarter	(2)	April 6, 2011	San Diego, CA	450
10.	Hotel Monaco Seattle		April 7, 2011	Seattle, WA	189
11.	Mondrian Los Angeles		May 3, 2011	West Hollywood, CA	236
12.	W Boston		June 8, 2011	Boston, MA	235
13.	Hotel Zetta San Francisco		April 4, 2012	San Francisco, CA	116
14.	Hotel Vintage Seattle		July 9, 2012	Seattle, WA	125
15.	Hotel Vintage Portland		July 9, 2012	Portland, OR	117
16.	W Los Angeles - West Beverly Hills		August 23, 2012	Los Angeles, CA	297
17.	Hotel Zelos San Francisco	(2) (3)	October 25, 2012	San Francisco, CA	202
18.	Embassy Suites San Diego Bay - Downtown		January 29, 2013	San Diego, CA	341
19.	Hotel Modera		August 28, 2013	Portland, OR	174
20.	Hotel Zephyr Fisherman's Wharf	(1)	December 9, 2013	San Francisco, CA	361
21.	Hotel Zeppelin San Francisco (formerly Prescott Hotel)	(3)	May 22, 2014	San Francisco, CA	196
22.	The Nines, a Luxury Collection Hotel, Portland		July 17, 2014	Portland, OR	331
23.	Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables)		November 12, 2014	Miami, FL	157
24.	Hotel Palomar Los Angeles - Beverly Hills	(1)	November 20, 2014	Los Angeles, CA	264
25.	Union Station Hotel Nashville, Autograph Collection	(1)	December 10, 2014	Nashville, TN	125
26.	Revere Hotel Boston Common		December 18, 2014	Boston, MA	356
27.	LaPlaya Beach Resort and LaPlaya Beach Club		May 21, 2015	Naples, FL	189
28.	The Tuscan Fisherman's Wharf		June 11, 2015	San Francisco, CA	221

29.	Dumont NYC	October 19, 2016	New York, NY	252
	Total number of guest rooms			7,219

(1) This property is subject to a long-term ground lease.
(2) This property is subject to mortgage debt at December 31, 2016.
(3) This property is subject to a long-term hotel lease.

Hotel Managers and Hotel Management Agreements

We are a party to hotel management agreements with Davidson Hotels and Resorts, Denihan Hospitality Group, Destination Hotels and Resorts, HEI Hotels and Resorts, InterContinental Hotels Group, Kimpton Hotels and Restaurants, Noble House Hotels & Resorts, OLS Hotels and Resorts, Pyramid Hotel Group, Sage Hospitality Resources, sbe Hotel Group, Sofitel (Accor SA), Starwood Hotels and Resorts and Viceroy Hotel Group.

Our management agreements generally have the terms described below:

- Base Management Fees. Our management agreements generally provide for the payment of base management fees between 2% and 4% of the applicable hotel's revenues, as determined in the agreements.

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

- Terms. The terms of our management agreements range from 5 years to 20 years not including renewals, and 5 years to 52 years including renewals.

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

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

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

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

- Working Capital. Our management agreements typically require us to maintain working capital for a hotel and to fund the cost of supplies such as linens and other similar items. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from the hotel operations are insufficient to meet the financial requirements of the hotel.

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

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

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

Franchise Agreements

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

Property	Expiration Date
Le Meridien Delfina Santa Monica	September 2033
Embassy Suites San Diego Bay - Downtown	January 2028
The Nines, a Luxury Collection Hotel, Portland	October 2033
Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables)	September 2036
Union Station Hotel Nashville, Autograph Collection	January 2032

Ground and Hotel Lease Agreements

The Hotel Monaco Washington DC and Argonaut Hotel are subject to long-term ground lease agreements that cover all of the land underlying these hotels. These ground leases require us to make rental payments, based on the greater of a base rent or a percentage of gross hotel revenues and gross food and beverage revenues in excess of certain thresholds, as defined in the agreements. The agreements also contain certain restrictions on modifications that can be made to the structures due to their status as national historic landmarks. Both of these lease agreements expire in 2059.

The Hotel Zelos San Francisco is subject to a long-term hotel lease agreement that covers the hotel premises. The hotel lease agreement requires us to make rental payments, based on the greater of a base rent or a percentage of gross hotel revenues and gross food and beverage revenues in excess of certain thresholds, as defined in the agreement. This hotel lease agreement expires in 2097.

The Hotel Zephyr Fisherman's Wharf is subject to a long-term primary ground lease agreement and secondary sublease agreements that cover all the land underlying the hotel and retail suites of the property. Through 2016, the primary ground lease required us to make base rental payments and percentage rental payments based on a percentage of room and retail revenues attributed to guest rooms and retail space added to the hotel property in 1998. Beginning in 2017, the primary ground lease requires us to pay percentage rent based on total room, retail and parking revenues. The secondary sublease required us to make rental payments based on hotel net income, as defined in the agreement, related to the rooms and retail space in existence prior to the 1998 renovation. The primary ground lease expires in 2062. The secondary sublease expired in April 2016 at which time the hotel became subject to only the primary ground lease through its maturity in 2062.

Hotel Zeppelin San Francisco (formerly Prescott Hotel) is subject to a long-term hotel lease for the right to use floors three through seven, the basement and the roof of an adjacent, attached building containing 64 of the 196 guest rooms at the property. The hotel lease expires in 2059, with a one-time extension option of 30 years. We are required to pay annual base rent of approximately $0.5 million, beginning in October 2017. The annual base rent is subject to a fixed increase every year during the remaining lease term.

The Hotel Palomar Los Angeles - Beverly Hills is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2107, including 19 five-year extension options. We are required to pay annual base rent of approximately $3.8 million through January 2021 which is adjusted for consumer price index ("CPI") increases at each five-year extension.

The Union Station Hotel Nashville, Autograph Collection is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2105. We are required to pay the greater of annual base rent of $0.1 million or annual real property taxes.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common shares began trading on the NYSE on December 9, 2009 under the symbol “PEB.” The following table sets forth, for the period indicated, the high and low closing prices per share and the cash dividends declared per share:

	2016			2015		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$29.07	$21.99	$ 0.38	$50.11	$44.59	$ 0.31
Second Quarter	$28.79	$23.77	$ 0.38	$46.57	$41.35	$ 0.31
Third Quarter	$31.19	$25.83	$ 0.38	$46.24	$35.00	$ 0.31
Fourth Quarter	$31.38	$23.79	$ 0.38	$38.52	$27.67	$ 0.31

The closing price per share of our common shares on December 31, 2016, as reported by the NYSE, was $29.75.

Shareholder Information

On February 15, 2017, there were 25 holders of record of our common shares. However, because the vast majority of our common shares are held by brokers and other institutions on behalf of shareholders, we believe that there are considerably more beneficial holders of our common shares than record holders.

The following graph provides a comparison of the cumulative total return on our common shares from December 31, 2011, to the NYSE closing price per share on December 31, 2016, with the cumulative total return on the Russell 2000 Index (the “Russell 2000 Index”) and the FTSE National Association of Real Estate Investment Trusts Equity REITs Index (the “FTSE NAREIT Equity Index”) for the same period. Total return values were calculated assuming a $100 investment on December 31, 2011 with reinvestment of all dividends in (i) our common shares, (ii) the Russell 2000 Index and (iii) the FTSE NAREIT Equity Index. The total return values do not include any dividends declared, but not paid, during the period.

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

Name	Value of Initial Investment at December 31, 2011	Value of Investment at December 31, 2012	Value of Investment at December 31, 2013	Value of Investment at December 31, 2014	Value of Investment at December 31, 2015	Value of Investment at December 31, 2016
Pebblebrook Hotel Trust	$ 100.00	$ 122.97	$ 167.56	$ 254.60	$ 161.65	$ 181.47
Russell 2000 Index	$ 100.00	$ 116.39	$ 161.57	$ 169.48	$ 162.00	$ 196.47
FTSE NAREIT Equity Index	$ 100.00	$ 119.80	$ 123.22	$ 157.76	$ 162.23	$ 176.62

Distributions

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

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

	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Common Shares:						
Ordinary non-qualified income	$1.3794	95.14 %	$1.1715	98.21 %	$0.9108	100.00%
Qualified dividend	0.0704	4.86 %	0.0213	1.79 %	—	— %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	$1.4498	100.00%	$1.1928	100.00%	$0.9108	100.00%
Series A Preferred Shares:						
Ordinary non-qualified income	$0.2914	95.14 %	$1.9336	98.21 %	$2.3948	100.00%
Qualified dividend	0.0149	4.86 %	0.0352	1.79 %	—	— %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	$0.3063	100.00%	$1.9688	100.00%	$2.3948	100.00%
Series B Preferred Shares:						
Ordinary non-qualified income	$1.3109	95.14 %	$1.9643	98.21 %	$2.4328	100.00%
Qualified dividend	0.0669	4.86 %	0.0357	1.79 %	—	— %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	$1.3778	100.00%	$2.0000	100.00%	$2.4328	100.00%
Series C Preferred Shares:						
Ordinary non-qualified income	$1.5461	95.14 %	$1.5960	98.22 %	$1.9767	100.00%
Qualified dividend	0.0789	4.86 %	0.0290	1.78 %	—	— %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	$1.6250	100.00%	$1.6250	100.00%	$1.9767	100.00%
Series D Preferred Shares:						
Ordinary non-qualified income	$0.9099	95.15 %	$—	— %	$—	— %
Qualified dividend	0.0464	4.85 %	—	— %	—	— %
Capital gain	—	— %	—	— %	—	— %
Return of capital	—	— %	—	— %	—	— %
Total	$0.9563	100.00%	$—	— %	$—	— %

The common distribution declared on December 13, 2013 and paid on January 15, 2014 was treated as a 2014 distribution for tax purposes. For tax purposes, $0.4261, $0.4328 and $0.3517 of the Series A, Series B and Series C preferred share distributions, respectively, declared on December 13, 2013 and paid on January 15, 2014 were treated as 2014 distributions.

Of the common distribution declared on December 15, 2014 and paid on January 15, 2015, $0.1692 was treated as a 2015 distribution for tax purposes. The preferred share distributions declared on December 15, 2014 and paid on January 15, 2015, were treated as 2014 distributions for tax purposes.

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

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

Securities Authorized for Issuance Under Equity Compensation Plan

The following table sets forth information regarding securities authorized for issuance under our equity compensation plan, our 2009 Equity Incentive Plan, as amended and restated, as of December 31, 2016. See Note 8 to the accompanying consolidated financial statements for additional information regarding our 2009 Equity Incentive Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	—	—	1,409,031
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,409,031

During the year ended December 31, 2016, certain of our employees chose to have us acquire from such employees an aggregate of 88,510 common shares to pay taxes due upon vesting of restricted common shares granted pursuant to share award agreements. The average price paid by the Company for these shares was $28.21 per share.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1, 2016 - October 31, 2016	—	$	——	$—
November 1, 2016 - November 30, 2016	—	$	——	$—
December 1, 2016 - December 31, 2016	—	$	——	$—
Total	—	$	——	$150,000,000

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

[2] On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to $150.0 million of our outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. As of December 31, 2016, we had made no repurchases under this program.

Item 6. Selected Financial Data.

The following table includes selected historical financial information which has been derived from the audited consolidated financial statements. The following information should be read in conjunction with “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Consolidated

Financial Statements and Supplementary Data" and all of the financial statements and notes included elsewhere in this Annual Report on Form 10-K.

	For the year ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands, except share and per-share data)				
Revenues:					
Room	$568,867	$526,573	$410,600	$321,630	$239,218
Food and beverage	191,857	190,852	148,114	136,531	117,752
Other operating	55,697	53,439	40,062	31,056	23,718
Total revenues	816,421	770,864	598,776	489,217	380,688
Expenses:					
Hotel operating expenses:					
Room	137,312	124,090	102,709	83,390	63,213
Food and beverage	126,957	128,816	104,843	100,244	86,369
Other direct and indirect	219,655	215,169	166,435	140,564	112,002
Total hotel operating expenses	483,924	468,075	373,987	324,198	261,584
Depreciation and amortization	102,439	95,872	68,324	55,570	42,794
Real estate taxes, personal property taxes, property insurance and ground rent	50,488	46,947	36,878	31,052	20,187
General and administrative	28,105	32,335	28,322	20,542	19,011
Impairment loss	12,148	—	—	—	—
Total operating expenses	677,104	643,229	507,511	431,362	343,576
Operating income (loss)	139,317	127,635	91,265	57,855	37,112
Interest income	1,995	2,511	2,529	2,620	224
Interest expense	(43,615)	(38,774)	(27,065)	(23,680)	(14,932)
Other	283	—	—	—	—
Gain on sale of hotel properties	40,690	—	—	—	—
Equity in earnings (loss) of joint venture	(64,842)	6,213	10,065	7,623	5,970
Income (loss) before income taxes	73,828	97,585	76,794	44,418	28,374
Income tax (expense) benefit	134	(2,590)	(3,251)	(1,226)	(1,866)
Net income (loss)	73,962	94,995	73,543	43,192	26,508
Net income (loss) attributable to non-controlling interests	258	327	677	274	429
Net income (loss) attributable to the Company	73,704	94,668	72,866	42,918	26,079
Distributions to preferred shareholders	(19,662)	(25,950)	(25,079)	(22,953)	(17,825)
Issuance costs of redeemed preferred shares	(7,090)	—	—	—	—
Net income (loss) attributable to common shareholders	$46,952	$68,718	$47,787	$19,965	$8,254
Net income (loss) per share available to common shareholders, basic	$0.65	$0.95	$0.72	$0.32	$0.14
Net income (loss) per share available to common shareholders, diluted	$0.64	$0.94	$0.71	$0.32	$0.14
Weighted-average number of common shares, basic	71,901,499	71,715,870	65,646,712	61,498,389	55,806,543
Weighted-average number of common shares, diluted	72,373,242	72,384,289	66,264,118	61,836,741	55,955,497

	As of December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Balance Sheet Data:					
Investment in hotel properties, net	$2,672,654	$2,673,584	$2,343,690	$1,717,611	$1,417,229
Investment in joint venture	—	248,794	258,828	260,304	283,011
Cash and cash equivalents	33,410	26,345	52,883	55,136	85,900
Total assets	2,809,259	3,058,471	2,767,186	2,114,031	1,842,947
Senior unsecured revolving credit facility	82,000	165,000	50,000	—	—
Term loans	671,793	521,883	298,342	99,430	99,273
Senior unsecured notes	99,460	99,392	—	—	—
Mortgage debt	142,998	319,320	492,347	451,917	366,020
Total shareholders' equity	1,605,684	1,758,389	1,781,091	1,473,339	1,312,951

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

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

Overview

The U.S. lodging industry continued to exhibit positive fundamentals in 2016, though at moderate growth levels. However, the slowing global economy, modest job gains, lowered corporate profit outlook, the strength of the U.S. dollar and softer international inbound and business travel demand are likely to produce more modest hotel demand growth for 2017. As a result of these factors and greater supply on average in many of the larger urban markets like New York, Boston, Los Angeles, Miami, Portland and Washington, D.C., we expect that the urban markets will continue to underperform the U.S. lodging industry’s modest RevPAR growth in 2017. We remain encouraged with the opportunities throughout our portfolio, as well as the progress we have made in gaining market share and improving operating performance at our recently renovated and redeveloped hotels. We believe that our properties have opportunities to continue to achieve significant growth in their operating cash flows and long-term economic values, however, we remain cautious due to the current uncertain economic and geopolitical environment.

During the year ended December 31, 2016, we sold a parcel of land adjacent to the Revere Hotel Boston Common, sold the Viceroy Miami hotel, sold The Redbury Hollywood hotel and sold the DoubleTree by Hilton Hotel Bethesda -Washington DC for sales prices aggregating $161.5 million.

We redeemed our entire 49% interest in the Manhattan Collection joint venture ("redemption transaction") and became 100.0% owner of the Manhattan NYC and Dumont NYC hotels, which were previously owned by the joint venture. Subsequent to the redemption, we sold the Manhattan NYC hotel property for $217.5 million. We also repaid the $140.0 million mortgage loan secured by the Manhattan NYC and repaid the $50.0 million mortgage loan that had been secured by the Dumont NYC. We are currently marketing the Dumont NYC property for sale, however, we can give no assurance that we can consummate this sale transaction in a timely manner or at all.

We redeemed all 5,600,000 of our Series A Preferred Shares and all 3,400,000 of our Series B Preferred Shares and issued 5,000,000 of new Series D Preferred Shares. We also repaid the $62.8 million mortgage loan on the Embassy Suites San Diego Bay - Downtown, the $22.7 million mortgage loan on the Hotel Modera, the $42.1 million mortgage loan on the Hotel Monaco Washington DC and the $41.7 million mortgage loan on the Argonaut Hotel.

While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels’ operations, including property positioning and repositioning, revenue and expense management, operations

analysis, physical

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design, renovation and capital improvements, guest experience and overall strategic direction. Through these efforts, we seek to improve property efficiencies, lower costs, maximize revenues and enhance property operating margins, which we expect will enhance returns to our shareholders.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and non-financial metrics such as room revenue per available room ("RevPAR"); average daily rate ("ADR"); occupancy rate ("occupancy"); funds from operations ("FFO"); and earnings before interest, income taxes, depreciation and amortization ("EBITDA"). We evaluate individual hotel and company-wide performance with comparisons to budgets, prior periods and competing properties. ADR, occupancy and RevPAR may be impacted by macroeconomic factors as well as regional and local economies and events. See "Non-GAAP Financial Matters" for further discussion of FFO and EBITDA.

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our wholly owned hotels for the years ended December 31, 2016 and 2015.

	For the year ended	
	2016	2015
Total Wholly Owned Portfolio		
Same-Property Occupancy	84.7 %	83.6 %
Same-Property ADR	$248.55	$244.18
Same-Property RevPAR	$210.56	$204.16

The table above includes information from all of the hotels we owned as of December 31, 2016, except for Hotel Vintage Portland for the first quarter of both 2016 and 2015 because it was closed during the first quarter of 2015 for renovation, Hotel Zeppelin San Francisco (formerly Prescott Hotel) for the first and fourth quarters of both 2016 and 2015 because it was closed during the first and fourth quarters of 2016 for renovation, both Viceroy Miami and The Redbury Hollywood for the second, third and fourth quarters of both 2016 and 2015 because we sold these properties during the second quarter of 2016, DoubleTree by Hilton Hotel Bethesda -Washington DC for the fourth quarter of both 2016 and 2015 because we sold this property during the fourth quarter of 2016, Dumont NYC for the first, second and third quarters of both 2016 and 2015 because we did not wholly own this property until the fourth quarter of 2016, and the Manhattan NYC for the full year in both 2016 and 2015 because we did not wholly own this property for any full quarter in 2016. These hotel results for the respective periods include information reflecting operational performance for some hotels prior to our ownership of those hotels.

Results of Operations

At December 31, 2016 and 2015, we had 29 and 31 wholly owned properties and leasehold interests, respectively. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition or through the dates of disposition. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the years ended December 31, 2016 and 2015. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are considered and referred to as "comparable properties":

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Property	Location	Acquisition/Disposition Date	Non-comparable property for the Years Ended 2016 and 2015	Non-comparable property for the Years Ended 2015 and 2014
Hotel Zeppelin San Francisco (formerly Prescott Hotel)	San Francisco, CA	May 22, 2014		X
The Nines, a Luxury Collection Hotel, Portland	Portland, OR	July 17, 2014		X
Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables)	Miami, FL	November 12, 2014		X
Hotel Palomar Los Angeles - Beverly Hills	Los Angeles, CA	November 20, 2014		X
Union Station Hotel Nashville, Autograph Collection	Nashville, TN	December 10, 2014		X
Revere Hotel Boston Common	Boston, MA	December 18, 2014		X
LaPlaya Beach Resort and LaPlaya Beach Club	Naples, FL	May 21, 2015	X	X
The Tuscan Fisherman's Wharf	San Francisco, CA	June 11, 2015	X	X
Viceroy Miami	Miami, FL	June 1, 2016	X	
The Redbury Hollywood	Hollywood, CA	June 1, 2016	X	
Manhattan NYC [(1)]	New York, NY	October 19, 2016	X	
Dumont NYC	New York, NY	October 19, 2016	X	
DoubleTree by Hilton Hotel Bethesda -Washington DC	Bethesda, Maryland	November 2, 2016	X	

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

Comparison of the year ended December 31, 2016 to the year ended December 31, 2015

Revenues — Total hotel revenues increased by $45.6 million, of which $23.6 million was contributed by the comparable properties and a net increase of $22.0 million was contributed by the non-comparable properties. The increase from the comparable properties is primarily a result of increases in room revenues at the Le Meridien Delfina Santa Monica, W Los Angeles - West Beverly Hills, Hotel Palomar Los Angeles - Beverly Hills and Hotel Zephyr Fisherman's Wharf, in addition to an increase in food and beverage revenue at the InterContinental Buckhead Atlanta, offset by a decline in room revenue at the Hotel Zeppelin San Francisco (formerly Prescott Hotel), which was closed during the first quarter of 2016, and a decline in food and beverage revenue at the Hotel Monaco Washington DC, because the restaurant was closed for renovation in the second quarter of 2016. Hotel Zephyr Fisherman's Wharf and W Los Angeles - West Beverly Hills completed their renovations during the first six months of 2015 and continue to ramp up following these renovations. Our Los Angeles properties also benefited from the displacement of families from their Porter Ranch neighborhood due to the gas leak and our San Francisco properties benefited from the Super Bowl, which was held in San Francisco in February 2016.

Hotel operating expenses — Total hotel operating expenses increased by $15.8 million. The comparable properties contributed $10.1 million of the increase, which is a result of cost increases associated with increased revenues at Hotel Vintage Portland, W Los Angeles - West Beverly Hills, Hotel Palomar Los Angeles - Beverly Hills and Hotel

Zephyr Fisherman's Wharf. The remaining $5.7 million of the net increase was contributed by the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by $6.6 million primarily due to the additional depreciation from the assets added from the renovations of the Hotel Zeppelin San Francisco (formerly Prescott Hotel), Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables) and the acquisitions of the LaPlaya Beach Resort and LaPlaya Beach Club and The Tuscan Fisherman's Wharf, both of which had a full year of depreciation in 2016 offset by a reduction in depreciation from properties sold during 2016.

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Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, insurance and ground rent increased by $3.5 million primarily due to the non-comparable properties and increases in real estate taxes at our comparable properties.
Corporate general and administrative — Corporate general and administrative expenses decreased by $4.2 million primarily as a result of the management transition costs of approximately $1.1 million incurred in July 2015 to replace a hotel management company for four hotels in San Francisco and $4.7 million in acquisition costs incurred in 2015. No similar expenses were incurred in 2016. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.
Impairment loss — Impairment loss increased by $12.1 million due to the loss recognized upon reclassification of the DoubleTree by Hilton Hotel Bethesda -Washington DC to held for sale. There was no such loss during the prior period.
Interest income — Interest income remained consistent with the prior period.
Interest expense — Interest expense increased by $4.8 million as a result of additional borrowings in connection with the acquisition of the non-comparable properties and the redemption of the Preferred Shares.
Other — Other expense increased by $0.3 million as a result of the gain for the ineffective portion of our derivative instruments. There was no such ineffectiveness during the prior period.
Gain on sale of hotel properties — Gain on sale of hotel properties increased by $40.7 million from the sales of a parcel of land adjacent to the Revere Hotel Boston Common, the Viceroy Miami and The Redbury Hollywood.
Equity in earnings (losses) of joint venture — Equity in losses of joint venture increased $71.1 million due to an other than temporary impairment loss of $62.6 million that we recognized on our joint venture investment during the third quarter of 2016. There was no such loss during the prior period.
Income tax (expense) benefit — Income tax expense decreased by $2.7 million as a result of a lower net income during this year at our TRS compared to the prior year.
Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.
Distributions to preferred shareholders — Distributions to preferred shareholders decreased $6.3 million as a result of the redemptions of all of the Series A Preferred Shares in March 2016 and all of the Series B Preferred Shares in September 2016 which were offset, in part, by the issuance of the Series D Preferred Shares in June 2016.
Issuance costs of redeemed preferred shares — These issuance costs relate to the Series A and Series B Preferred Shares which we redeemed in March and September 2016, respectively. These costs are included in the determination of net income attributable to common shareholders.
Other comprehensive income (loss) — Other comprehensive income decreased as a result of a decrease in net income compared to the prior year.

Comparison of the year ended December 31, 2015 to the year ended December 31, 2014
Revenues — Total hotel revenues increased by $172.1 million, of which $21.9 million was contributed by the comparable properties and $150.2 million was contributed by the non-comparable properties. The increase from the comparable properties is primarily a result of increases in ADR at the Le Meridien Delfina Santa Monica, The Westin San Diego Gaslamp Quarter, Embassy Suites San Diego Bay - Downtown and W Boston, offset by a reduction in revenues due to the closing of the restaurant at the W Los Angeles - West Beverly Hills.
Hotel operating expenses — Total hotel operating expenses increased by $94.1 million. The comparable properties contributed $4.9 million of the increase, which was partially offset primarily by a reduction of $3.6 million in expenses due to the closing of the restaurant at the W Los Angeles - West Beverly Hills. The non-comparable properties contributed $89.2 million to the increase.
Depreciation and amortization — Depreciation and amortization expense increased by $27.5 million primarily due to the additional depreciation for the non-comparable properties.

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Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, insurance and ground rent increased by $10.1 million primarily due to the non-comparable properties.
Corporate general and administrative — Corporate general and administrative expenses increased by $4.0 million primarily as a result of the management transition costs of approximately $1.1 million incurred in July 2015 to replace a hotel management company for four hotels in San Francisco and $4.7 million in acquisition costs incurred in 2015. No similar expenses were incurred in 2016. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.
Interest income — Interest income remained consistent with the prior period.
Interest expense — Interest expense increased by $11.7 million a result of additional term loans, the issuance of senior unsecured notes and credit facility borrowings in connection with the acquisition of the non-comparable properties.
Equity in earnings (losses) of joint venture — Equity in losses of joint venture decreased $3.9 million due to a decrease in net income of the Manhattan Collection joint venture. The joint venture had a decrease in revenues primarily as a result of decreases in ADR at its properties.
Income tax (expense) benefit — Income tax expense decreased by $0.7 million due to lower net income at our TRS compared to the prior year.
Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.
Distributions to preferred shareholders — Distributions to preferred shareholders increased $0.9 million as a result of the issuance of additional Series C Preferred Shares in September 2014.
Other comprehensive income (loss) — Other comprehensive income increased as a result of the change in the fair values of our interest rate swaps.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO and EBITDA, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance. We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income (calculated in accordance with U.S. GAAP), excluding real estate related depreciation and amortization, gains (losses) from sales of real estate, impairments of real estate assets (including impairment of real estate related joint ventures), the cumulative effect of changes in accounting principles and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of real estate related depreciation and amortization including our share of the joint venture depreciation and amortization, gains (losses) from sales of real estate and impairments of real estate assets (including impairment of real estate related joint ventures), all of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.
The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the years ended December 31, 2016, 2015 and 2014 (in thousands):

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	For the year ended December 31,		
	2016	2015	2014
Net income (loss)	$73,962	$94,995	$73,543
Adjustments:			
Depreciation and amortization	102,206	95,634	68,136
Depreciation and amortization from joint venture	7,139	8,574	9,025
Gain on sale of hotel properties	(40,690)	—	—
Impairment loss	12,148	—	—
Impairment loss from joint venture	62,622	—	—
FFO	$217,387	$199,203	$150,704
Distribution to preferred shareholders	(19,662)	(25,950)	(25,079)
Issuance costs of redeemed preferred shares	(7,090)	—	—
FFO available to common share and unit holders	$190,635	$173,253	$125,625

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. We believe that EBITDA provides investors a useful financial measure to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Net income (loss)	$73,962	$94,995	$73,543
Adjustments:			
Interest expense	43,615	38,774	27,065
Interest expense from joint venture	8,218	9,137	9,137
Income tax expense (benefit)	(134)	2,590	3,251
Depreciation and amortization	102,439	95,872	68,324
Depreciation and amortization from joint venture	7,139	8,574	9,025
EBITDA	$235,239	$249,942	$190,345

Neither FFO nor EBITDA represent cash generated from operating activities as determined by U.S. GAAP and neither should be considered as an alternative to U.S. GAAP net income (loss), as an indication of our financial performance, or to U.S. GAAP cash flow from operating activities, as a measure of liquidity. In addition, FFO and EBITDA are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Critical Accounting Policies

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

Hotel Properties

Investment in Hotel Properties

Estimation and judgment is required to allocate the purchase price to elements of our acquired hotel properties. Upon acquisition, we allocate the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangements assumed in connection with the transaction, including terms

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that are above or below market compared to an estimated market agreement at the acquisition date. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis) and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. Acquisition costs are expensed as incurred.

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

Held for Sale

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

Depreciation and Amortization

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

Impairment

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

Investment in Joint Venture

Judgment is required with respect to the consolidation of partnership and joint venture entities in terms of the evaluation of control, including assessment of the importance of rights and privileges of the partners based on voting rights, as well as financial variable interests that are not controllable through voting interests. Investments in joint ventures which we do not control but for which we have the ability to exercise significant influence over operating and financial policies are accounted for under the equity method of accounting. Until we redeemed our interest in the Manhattan Collection joint venture, we employed the equity accounting method because we did not control the joint venture and were not the primary beneficiary of the joint venture pursuant to the applicable authoritative accounting

guidance. We reviewed the investment in our joint venture for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. An investment is impaired when its estimated fair value is less than the carrying amount of our investment and that impairment is other than temporary.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage and other ancillary amenities. Revenue is recognized when rooms are occupied and services have been rendered. For retail operations, revenue is recognized on a straight-line basis over the lives of the retail leases. The Company recognizes revenue related to

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membership initiation fees and deposits over the expected life of an active membership. For membership initiation deposits, the difference between the amount paid by the member and the present value of the refund obligation is deferred and recognized within other revenues on the consolidated statements of operations over the expected life of an active membership. The present value of the refund obligation is recorded as a membership initiation deposit liability in the consolidated balance sheets and accretes over the nonrefundable term using the effective interest method with an interest rate defined as the incremental borrowing rate. The accretion is included in interest expense. These revenue sources are affected by conditions impacting the travel and hospitality industry as well as competition from other hotels and businesses in similar markets.

Share-Based Compensation

We have adopted an equity incentive plan that provides for the grant of common share options, share awards, share appreciation rights, performance units and other equity-based awards. Equity-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. Share-based compensation awards that contain a performance condition are reviewed at least quarterly to assess the achievement of the performance condition. Compensation expense will be adjusted when a change in the assessment of achievement of the specific performance condition level is determined to be probable. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of our stock, expected dividend yield, expected term, and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds. We believe that the assumptions and estimates utilized are appropriate based on the information available to management at the time of grant.

Income Taxes

To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90 percent of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to our shareholders. As a REIT, we generally will not be subject to federal corporate income tax on that portion of our taxable income that is currently distributed to shareholders. We are subject to certain state and local taxes on our income and property, and to federal income and excise taxes on our undistributed taxable income. In addition, our wholly owned TRS, which leases our hotels from our Operating Partnership, is subject to federal and state income taxes. We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

New Accounting Pronouncements Not Yet Implemented

See Note 2 to the accompanying consolidated financial statements for additional information relating to recently issued accounting pronouncements.

Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our senior unsecured revolving credit facility. We expect our existing cash balances and cash provided by operations will be adequate to fund operating requirements, service debt and fund dividends in accordance with the REIT requirements of the federal income tax laws.

We expect to meet our long-term liquidity requirements, such as hotel property acquisitions, property redevelopment, investments in existing or new joint ventures, and debt principal payments and debt maturities, through the net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, hotel property sales and cash provided by operations. The success of our business strategy may depend in part on our ability to access additional capital through issuances of debt and equity securities, which is dependent on favorable market conditions. We strive to maintain prudent debt leverage and intend to opportunistically enhance our capital position.

Senior Unsecured Revolving Credit Facility, Unsecured Term Loan Facilities and Senior Unsecured Notes

On October 16, 2014, we amended and restated the credit agreement governing our unsecured revolving credit facility and our first unsecured term loan facility. On May 19, 2015, we exercised the agreement's accordion feature to increase the aggregate borrowing capacity by $150.0 million to $750.0 million. Our $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility (the "Revolver") and a $300.0 million unsecured term loan (the "First Term Loan"). The Revolver matures in January 2019 with options to extend the maturity date to January 2020 and the First Term Loan matures in January 2020.

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As of December 31, 2016, we had $82.0 million outstanding under the Revolver and $300.0 million outstanding under the First Term Loan. As of December 31, 2016, we had $368.0 million borrowing capacity remaining under the Revolver. We have the ability to further increase the aggregate borrowing capacity under the credit agreement to up to $1.0 billion, subject to lender approval. We intend to repay indebtedness incurred under the Revolver from time to time out of cash flows from operations and, as market conditions permit, from the net proceeds of issuances of additional equity and debt securities and from the net proceeds of dispositions of hotel properties.

Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The interest rate depends upon our leverage ratio pursuant to the provisions of the credit facility agreement. We entered into interest rate swaps to effectively fix the interest rates of the First Term Loan. At December 31, 2016, the First Term Loan had a weighted-average effective interest rate of 2.93% through July 13, 2017 and a weighted-average effective interest rate of 3.51% from July 13, 2017 through January 15, 2020, based on the Company's leverage ratio at December 31, 2016.

On April 13, 2015, we entered into a second unsecured term loan facility (the "Second Term Loan"). The Second Term Loan has a $100.0 million capacity, which may be increased up to $200.0 million, subject to lender approval, and matures in April 2022. On January 5, 2016, we exercised the accordion option to increase the borrowing capacity to $175.0 million and borrowed the additional $75.0 million resulting from such increase. We entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate for the entire duration of the Second Term Loan, and, as a result, the Second Term Loan had a weighted-average effective interest rate of 3.46%, based on the Company’s leverage ratio at December 31, 2016. The remaining $75.0 million borrowing remains floating at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

On June 10, 2015, we entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, we exercised the accordion option to increase the borrowing capacity to $200.0 million and borrowed the additional $75.0 million resulting from such increase. The Third Term Loan bears interest at a variable rate of LIBOR plus 1.45% to 2.20%, depending on the Company's leverage ratio. We entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate for the entire duration of the term loan, resulting in a weighted-average effective interest rate of 3.21%, based on the Company's leverage ratio at December 31, 2016.

On November 12, 2015, we issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, we issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025.

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Debt Summary

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

	Interest Rate	Maturity Date	Balance Outstanding as of December 31, 2016	December 31, 2015
Senior unsecured revolving credit facility	Floating [1]	January 2019	$82,000	$165,000
Term loans				
First Term Loan	Floating[2]	January 2020	300,000	300,000
Second Term Loan	Floating[2]	April 2022	175,000	100,000
Third Term Loan	Floating[2]	January 2021	200,000	125,000
Total term loans at stated value			675,000	525,000
Deferred financing costs, net			(3,207)	(3,117)
Total term loans			$671,793	$521,883
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(540)	(608)
Total senior unsecured notes			$99,460	$99,392
Mortgage loans				
Embassy Suites San Diego Bay - Downtown	6.28%	June 2016	—	63,116
Hotel Modera	5.26%	July 2016	—	22,833
Hotel Monaco Washington DC	4.36%	February 2017	—	42,895
Argonaut Hotel	4.25%	March 2017	—	42,823
Sofitel Philadelphia	3.90%	June 2017	44,320	45,668
Hotel Zelos San Francisco	5.94%	September 2017	25,718	26,098
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	72,852	75,040
Mortgage loans at stated value			142,890	318,473
Mortgage loan premiums and deferred financing costs [3]			108	847
Total mortgage loans			$142,998	$319,320
Total debt			$996,251	$1,105,595

[1] Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the senior unsecured credit agreement) plus an applicable margin. We have two six-month extension options.

[2] Borrowings under our term loan facilities bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. We entered into interest rate swaps to effectively fix the interest rate for the First Term Loan, a portion of the Second Term Loan and the Third Term Loan. At December 31, 2016 and December 31, 2015, we had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan.

[3] As of December 31, 2016, loan premium on assumed mortgage recorded in purchase accounting for the Hotel Zelos San Francisco.

On April 5, 2016, we repaid the $62.8 million mortgage loan on the Embassy Suites San Diego Bay - Downtown without penalty, using proceeds from our senior unsecured revolving credit facility. On May 5, 2016, we repaid the $22.7 million

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mortgage loan on the Hotel Modera, without penalty, using proceeds from the senior unsecured revolving credit facility. On November 10, 2016, we repaid the $42.1 million mortgage on the Hotel Monaco Washington DC, without penalty, using proceeds from the senior unsecured revolving credit facility. On December 1, 2016, we repaid the $41.7 million mortgage on the Argonaut Hotel, without penalty, using proceeds from the senior unsecured revolving credit facility. We also repaid the $140.0 million mortgage loan secured by the Manhattan NYC and repaid the $50.0 million mortgage loan that had been secured by the Dumont NYC.

Issuance of Shares of Beneficial Interest

On March 5, 2014, we entered into equity distribution agreements (collectively, the “Equity Distribution Agreements”) with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (collectively, the “Sales Agents”), providing for our sale from time to time of our common shares having an aggregate offering price of up to $175.0 million, pursuant to a prospectus supplement we filed with the SEC, through any of the Sales Agents, acting as sales agent and/or principal, through an at-the-market offering program (our “ATM program”). At the same time, we terminated our prior $170.0 million ATM program. No common shares were issued or sold under our ATM program during the year ended December 31, 2016. As of December 31, 2016, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program.

On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. As of December 31, 2016, the Company had no repurchases under this program.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under mortgage financings and other debt, draws on our credit facility, proceeds from offerings of our equity securities and hotel property sales. Our principal uses of cash are asset acquisitions, debt service, capital investments, operating costs, corporate expenses and dividends.

Cash Provided by Operations. Our cash provided by operating activities was $241.3 million for the year ended December 31, 2016. Our cash from operations includes the operating activities of the 29 hotels we wholly owned as of December 31, 2016. Our cash provided by operating activities for the year ended December 31, 2015 was $220.7 million and relates principally to the 31 hotels we wholly owned as of December 31, 2015 and cash distributions of $13.9 million received from the Manhattan Collection joint venture.

Cash Provided by Investing Activities. Our cash provided by investing activities was $298.7 million for the year ended December 31, 2016. During the year ended December 31, 2016, we invested $121.9 million in improvements to our hotel properties, received $364.4 million in proceeds from the sales of four hotel properties and a land parcel adjacent to one of our hotels, received $50.0 million from the joint venture in repayment of the note receivable, received a $3.0 million refund of a deposit we placed for a property under contract and had a decrease in restricted cash of $0.7 million. Our cash used in investing activities was $399.9 million for the year ended December 31, 2015. During the year ended December 31, 2015, we purchased two hotels using cash of $305.1 million, invested $99.8 million in improvements to our hotel properties, placed a deposit of $3.0 million for property under contract for purchase, received $3.0 million from a note receivable and had a decrease in restricted cash of $5.3 million.

Cash Used in Financing Activities. Our cash used in financing activities was $532.9 million for the year ended December 31, 2016. During the year ended December 31, 2016, we borrowed $469.0 million under the Revolver, repaid $552.0 million under the Revolver, borrowed $150.0 million under our term loan facilities, repaid $365.6 million of mortgage debt, repurchased $2.5 million of common shares for tax withholding for vested share-based equity awards, received $120.8 million of net proceeds from the issuance of 5,000,000 Series D Preferred Shares, used $225.1 million to redeem all of our Series A Preferred Shares and Series B Preferred Shares, paid $1.4 million in deferred financing fees, and paid $127.1 million in distributions. For the year ended December 31, 2015, cash flows provided by financing activities was $152.6 million. We borrowed $490.0 million from our revolving credit facility, repaid $375.0 million under the revolving credit facility, borrowed $225.0 million under our term loan facilities, borrowed $100.0 million by issuing unsecured notes, repaid $171.5 million of mortgage debt, repurchased $4.1 million of common shares for tax withholding for vested share-based equity awards, paid $3.3 million in deferred

financing fees and paid $110.0 million in distributions.

Capital Investments

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We maintain and intend to continue maintaining all of our hotels, including each hotel that we acquire in the future, in good repair and condition and in conformity with applicable laws and regulations and when applicable, in accordance with the franchisor's standards and the agreed-upon requirements in our management agreements. Routine capital investments will be administered by the hotel management companies. However, we maintain approval rights over the capital investments as part of the annual budget process and as otherwise required from time to time.

From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space and restaurants, in order to better compete with other hotels in our markets. In addition, after we acquire a hotel property, we are often required by the franchisor or brand manager, if there is one, to complete a property improvement plan ("PIP") in order to bring the hotel property up to the franchisor's or brand's standards. Generally, we expect to fund renovations and improvements with available cash, restricted cash, borrowings under our credit facility, or proceeds from new mortgage debt or equity offerings.

For the year ended December 31, 2016, we invested $121.9 million in capital investments to reposition and improve the properties we own. We expect to invest approximately $90.0 million to $100.0 million in capital investments for our hotels in 2017, including approximately $22.5 million in the Revere Hotel Boston Common renovation, $12.0 million in the Hotel Palomar Los Angeles - Beverly Hills renovation and $15.0 million in The Tuscan Fisherman's Wharf renovation. In March 2016, the Prescott Hotel was re-opened as Hotel Zeppelin San Francisco, after being closed in November 2015, to complete a $32.0 million renovation. During 2016, the $17.5 million Westin Colonnade Coral Gables and $15.5 million Union Station Hotel Nashville, Autograph Collection renovations were also completed. Both properties remained open during their renovations. The Westin Colonnade Coral Gables was renamed Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel after its renovation.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of December 31, 2016 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans [1]	$152,920	$77,028	$9,931	$65,961	$—
Term loans [2]	760,071	20,951	43,972	518,394	176,754
Unsecured notes [1]	138,027	4,859	9,717	9,730	113,721
Borrowings under credit facility [3]	86,107	2,012	84,095	—	—
Hotel and ground leases [4]	761,695	7,143	14,689	14,834	725,029
Capital lease obligation	36,542	72	608	679	35,183
Membership initiation deposits [5]	32,135	338	—	—	31,797
Purchase commitments [6]	14,134	14,134	—	—	—
Corporate office lease	3,563	378	787	831	1,567
Total	$1,985,194	$126,915	$163,799	$610,429	$1,084,051

(1) Amounts include principal and interest.

(2) Amounts include principal and interest. Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the term loans. At December 31, 2016 and December 31, 2015, we had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan. Interest expense on the $75.0 million that is subject to floating interest rates is calculated based on the interest rate as of December 31, 2016.

(3) Amounts include principal and interest. Interest expense is calculated based on the weighted-average interest rate for all outstanding credit facility borrowings as of December 31, 2016. It is assumed that the outstanding borrowings will be repaid upon maturity with fixed interest-only payments until then.

(4) The long-term ground leases on the Hotel Monaco Washington DC and Argonaut Hotel provide for the greater of base or percentage rent, adjusted for CPI increases. The long-term hotel lease on the Hotel Zelos San Francisco provides for base rent plus percentage rent, adjusted for CPI increases and contains a base rent floor and ceiling. The long-term leases on the Hotel Zephyr Fisherman's Wharf (formerly Radisson Hotel Fisherman's Wharf) provide for base plus

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percentage rent through 2016 and rent as a percentage of revenues and net income, as adjusted and defined in the agreements, in 2017 and thereafter. The long-term hotel lease on Hotel Zeppelin San Francisco (formerly Prescott Hotel) was determined to be both an operating and capital lease. The lease contains a fixed base rental increase every year during the lease term. The long-term ground lease on the Hotel Palomar Los Angeles - Beverly Hills provides for base rent, adjusted for CPI increases every five years. This lease has 19 five-year renewal options and the table assumes the exercise of all 19 renewal options. The long-term ground lease on the Union Station Hotel Nashville, Autograph Collection provides for annual base rent equal to the greater of $0.1 million or annual real property taxes. The table above reflects only minimum base rent for all periods presented and does not include assumptions for CPI adjustments.

(5) Represents refundable initiation membership deposits from club members at our LaPlaya Beach Resort and LaPlaya Beach Club.

(6) Amounts represent purchase orders and contracts that have been executed for renovation projects at the properties. We are committed to these purchase orders and contracts and anticipate making similar arrangements in the future with the existing properties or any future properties that we may acquire.

Off-Balance Sheet Arrangements

As of December 31, 2016, we had no off-balance sheet arrangements.

Inflation

We rely on the performance of the hotels to increase revenues to keep pace with inflation. Generally, our hotel operators possess the ability to adjust room rates daily, except for group or corporate rates contractually committed to in advance, although competitive pressures may limit the ability of our operators to raise rates faster than inflation or even at the same rate.

Seasonality

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

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are subject to fair value reporting at each reporting date and the increase or decrease in fair value is recorded in net income (loss) or accumulated other comprehensive income (loss), based on the applicable hedge accounting guidance. Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of December 31, 2016, we had interest rate swaps with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan and, as a result, the First Term Loan had a weighted-average effective interest rate of 2.93% through July 13, 2017 and a weighted-average effective interest rate of 3.51% from July 13, 2017 through January 15, 2020, based on our leverage ratio at December 31, 2016.

We entered into swap agreements to hedge the variable interest rates on the full amounts outstanding on the Second Term Loan and the Third Term Loan, except for $75.0 million of the Second Term Loan. The Second Term Loan and the Third Term Loan had weighted-average effective interest rates of 3.46% and 3.21%, respectively, based on the Company’s leverage ratio at December 31, 2016.

We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. For the year ended December 31, 2016, there was $2.4 million in unrealized gain recorded in accumulated other comprehensive income. For the year ended December 31, 2016, we recognized $0.3 million in other income for ineffectiveness related to our interest rate swaps. There was no ineffectiveness related to our interest rate swaps in 2015 and 2014.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting

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such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under guidance included in ASC 815 "Derivatives and Hedging."

The table below provides information about financial instruments that are sensitive to changes in interest rates, including mortgage obligations, bonds and lines of credit. For debt obligations, the table presents scheduled maturities, including annual amortization of principal, and related weighted-average interest rates for the debt maturing in each specified period (dollars in thousands).

	2017	2018	2019	2020	2021	Thereafter	Total
Liabilities							
Fixed rate debt	$72,316	$2,366	$2,456	$65,752	$—	$100,000	$242,890
Average interest rate	4.62 %	3.69 %	3.69 %	3.69 %	— %	4.79 %	4.42 %
Variable rate debt	$—	$—	$82,000	$300,000	$200,000	$175,000	$757,000
Average interest rate [1]	— %	— %	2.42 %	3.41 %	3.11 %	2.98 %	3.13 %
Total	$72,316	$2,366	$84,456	$365,752	$200,000	$275,000	$999,890

[1] See discussion of our debt under Liquidity and Capital Resources and Derivative Instruments.

This table reflects indebtedness outstanding as of December 31, 2016 and does not reflect indebtedness, if any, incurred after that date. Our ultimate exposure to interest rate fluctuations depends on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of adjustment, the ability to prepay or refinance variable rate indebtedness and hedging strategies used to reduce the impact of any increases in rates. As of December 31, 2016, the estimated fair value of our fixed rate debt was $242.9 million.

As of December 31, 2016, $157.0 million of the Company's aggregate indebtedness (16% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the term loan facilities that have been effectively swapped into fixed rates. If interest rates on our unhedged variable rate debt increase or decrease by 0.1 percent, our annual interest expense will increase or decrease by approximately $0.2 million, respectively.

Item 8. Consolidated Financial Statements and Supplementary Data.

See Financial Statements and index beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of

our management, including our principal executive officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the original framework in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

KPMG LLP, a registered independent accounting firm, has audited our consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued its report, included herein on page F-3, on the effectiveness of our internal control over financial reporting.

There was no change to our internal control over financial reporting during the fourth quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Trustees, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Trustee Independence.

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. Financial Statements

Included herein on pages F-1 through F-33.

2. Financial Statement Schedules

The following financial statement schedule is included herein on pages F-34 through F-36.

Schedule III--Real Estate and Accumulated Depreciation

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted from this Item 15.

3. Exhibits

The following exhibits are filed or furnished, as the case may be, as part of this Annual Report on Form 10-K:

Exhibit Number	Description of Exhibit
3.1	Declaration of Trust, as amended and supplemented, of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10 Q filed on July 25, 2016 (File No. 001 34571)).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on November 14, 2016 (File No. 001 34571)).
3.3	Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of December 13, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
3.4	First Amendment to the Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of September 30, 2014 (incorporated by reference to Exhibit 3.4 to the Registrant’s Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571)).
3.5	Second Amendment to the Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of June 8, 2016 (incorporated by reference to Exhibit 3.5 to the Registrant’s Current Report on Form 8 K filed on June 8, 2016 (File No. 001 34571)).
10.1*	Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 2, 2012 (File No. 001-34571)).
10.2*	Amendment No. 1 to the Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012, effective July 7, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10 Q filed on July 25, 2016 (File No. 001 34571)).
10.3*	Amendment No. 2 to the Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on February 22, 2017 (File No. 001 34571)).
10.4*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Jon E. Bortz (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.5*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Raymond D. Martz (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.6*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Thomas C. Fisher (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.7*	Form of Indemnification Agreement between Pebblebrook Hotel Trust and its officers and trustees (incorporated by reference to Exhibit 10.4 of Amendment No. 1 to the Registrant's Registration Statement on Form S-11/A filed on November 10, 2009 (File No. 333-162412)).
10.8*	Form of Share Award Agreement for officers and employees (incorporated by reference to Exhibit 10.5 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412)) (This agreement was superseded by Exhibit 10.10 below).

10.9*	Form of Share Award Agreement for trustees (incorporated by reference to Exhibit 10.6 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412)).
10.10*	Form of Share Award Agreement (Performance Vesting) for executive officers (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No. 001-34571)).

10.11*	Form of LTIP Unit Vesting Agreement (supersedes Exhibits 10.11, 10.12, and 10.13 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No. 001-34571)).
10.12*	Form of Share Award Agreement for executive officers (supersedes Exhibit 10.5 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412) and Exhibits 10.1, 10.2, and 10.3 to the Registrant's Current Report on Form 8-K filed on March 16, 2010 (File No. 001-34571)) (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No. 001-34571)).
10.13	Lease, dated December 1, 1999, by and between the United States of America, acting through the Administrator of General Services, and Tariff Building Associates, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 13, 2010 (File No. 001-34571)).
10.14	Assignment and Assumption of GSA Lease, dated September 9, 2010, by and among the United States of America, acting by and through the Administrator of General Services and Authorized Representatives, Tariff Building Associates, L.P., and Jayhawk Owner LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 13, 2010 (File No. 001-34571)).
10.15	Historical Lease, dated October 16, 2000, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.16	Seventh Amendment to Historic Lease, dated February 6, 2001, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.17	Tenth Amendment to Historic Lease, dated December 9, 2008, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.18	Eleventh Amendment to Historic Lease, dated February 16, 2011, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Wildcats Owner LLC. (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.19	Assignment and Assumption of Historical Lease, dated February 16, 2011, by and among the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an Agency of the United States of America, Maritime Hotel Associates, L.P., and Wildcats Owner LLC. (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.20*	Form of LTIP Class B Unit Vesting Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
10.21*	Form of Performance Unit Retention Award Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
10.22*	Form of Performance Unit Award Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 10, 2014 (File No. 001-34571)).
10.23	Agreement of Purchase and Sale, dated as of October 7, 2014, by and among NWBR LLC, and Stuart Street Development LLC, collectively, as Seller and NKOTB Owner LLC, as Buyer (incorporated by reference to Exhibit 10.31 to the Registrant’s Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571)).
10.24	Third Amended and Restated Credit Agreement, dated as of October 16, 2014, among Pebblebrook Hotel, L.P., as the Borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the Borrower, as guarantors, Bank of America, N.A., as administrative agent, swing line lender and L/C issuer,

	and the other lenders party thereto (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571).
10.25	First Amendment to Third Amended and Restated Credit Agreement, dated as of April 13, 2015, among Pebblebrook Hotel, L.P., as borrower, Pebblebrook Hotel Trust, as a guarantor, Bank of America, N.A., certain guarantors and certain lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).

10.26	Credit Agreement, dated as of April 13, 2015, among Pebblebrook Hotel, L.P., as the borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, U.S. Bank National Association, as administrative agent, and the other lenders party hereto (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).
10.27	Credit Agreement, dated as of June 10, 2015, among Pebblebrook Hotel, L.P., as the borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, PNC Bank, National Association, as administrative agent, and the other lenders party hereto (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).
10.28*	Form of Performance Unit Award Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 23, 2015 (File No. 001-34571)).
10.29	Note Purchase and Guarantee Agreement, dated November 12, 2015, by and among Pebblebrook Hotel Trust, Pebblebrook Hotel, L.P, Massachusetts Mutual Life Insurance Company, MassMutual Asia Limited, Allianz Life Insurance Company of North America and The Guardian Life Insurance Company of America.
10.30	Loan Agreement, dated as of October 18, 2016, between 371 Seventh Avenue Co., LLC and Bank of America, N.A. (incorporated by reference to Exhibit 3.5 to the Registrant's Current Report on Form 8 K filed on October 21, 2016 (File No. 001 34571)).
12.1†	Statement of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends.
21.1†	List of Subsidiaries of the Registrant.
23.1†	Consent of KPMG LLP.
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document (1)
101.SCH XBRL	Taxonomy Extension Schema Document (1)
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document (1)
101.LAB XBRL	Taxonomy Extension Label Linkbase Document (1)
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document (1)
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document (1)

* Management agreement or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

(1) Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

SIGNATURES

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

PEBBLEBROOK HOTEL TRUST

Date: February 23, 2017 /s/ JON E. BORTZ
Jon E. Bortz
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ JON E. BORTZ Jon E. Bortz	Chairman, President and Chief Executive Officer (principal executive officer)	February 23, 2017
/s/ RAYMOND D. MARTZ Raymond D. Martz	Executive Vice President, Chief Financial Officer, Treasurer and Secretary (principal financial officer and principal accounting officer)	February 23, 2017
/s/ CYDNEY C. DONNELL Cydney C. Donnell	Trustee	February 23, 2017
/s/ RON E. JACKSON Ron E. Jackson	Trustee	February 23, 2017
/s/ PHILLIP M. MILLER Phillip M. Miller	Trustee	February 23, 2017
/s/ MICHAEL J. SCHALL Michael J. Schall	Trustee	February 23, 2017
/s/ EARL E. WEBB Earl E. Webb	Trustee	February 23, 2017
/s/ LAURA H. WRIGHT Laura H. Wright	Trustee	February 23, 2017

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees
Pebblebrook Hotel Trust:

We have audited the accompanying consolidated balance sheets of Pebblebrook Hotel Trust and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pebblebrook Hotel Trust and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pebblebrook Hotel Trust's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2017, expressed an unqualified opinion on the effectiveness of Pebblebrook Hotel Trust's internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia
February 23, 2017

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees
Pebblebrook Hotel Trust:

We have audited Pebblebrook Hotel Trust's (Pebblebrook) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pebblebrook's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Pebblebrook's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pebblebrook maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pebblebrook Hotel Trust and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 23, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

McLean, Virginia
February 23, 2017

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Pebblebrook Hotel Trust
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2016	December 31, 2015
ASSETS		
Investment in hotel properties, net	$ 2,672,654	$ 2,673,584
Investment in joint venture	—	248,794
Ground lease asset, net	29,627	30,218
Cash and cash equivalents	33,410	26,345
Restricted cash	7,419	9,453
Hotel receivables (net of allowance for doubtful accounts of $494 and $243, respectively)	27,687	25,062
Prepaid expenses and other assets	38,462	45,015
Total assets	$ 2,809,259	$ 3,058,471
LIABILITIES AND EQUITY		
Senior unsecured revolving credit facility	$ 82,000	$ 165,000
Term loans, net of unamortized deferred financing costs	671,793	521,883
Senior unsecured notes, net of unamortized deferred financing costs	99,460	99,392
Mortgage debt, net of unamortized loan premiums and deferred financing costs	142,998	319,320
Accounts payable and accrued expenses	149,283	141,897
Advance deposits	19,110	17,726
Accrued interest	2,284	2,550
Distribution payable	33,215	29,869
Total liabilities	1,200,143	1,297,637
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference $250,000 at December 31, 2016 and $350,000 at December 31, 2015), 100,000,000 shares authorized; 10,000,000 shares issued and outstanding at December 31, 2016 and 14,000,000 shares issued and outstanding at December 31, 2015	100	140
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 71,922,904 issued and outstanding at December 31, 2016 and 71,735,129 issued and outstanding at December 31, 2015	719	717
Additional paid-in capital	1,776,404	1,868,047
Accumulated other comprehensive income (loss)	(2,312)	(4,750)
Distributions in excess of retained earnings	(169,227)	(105,765)
Total shareholders' equity	1,605,684	1,758,389
Non-controlling interests	3,432	2,445
Total equity	1,609,116	1,760,834
Total liabilities and equity	$ 2,809,259	$ 3,058,471

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

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income
(In thousands, except share and per-share data)

	For the year ended December 31,		
	2016	2015	2014
Revenues:			
Room	$568,867	$526,573	$410,600
Food and beverage	191,857	190,852	148,114
Other operating	55,697	53,439	40,062
Total revenues	816,421	770,864	598,776
Expenses:			
Hotel operating expenses:			
Room	137,312	124,090	102,709
Food and beverage	126,957	128,816	104,843
Other direct and indirect	219,655	215,169	166,435
Total hotel operating expenses	483,924	468,075	373,987
Depreciation and amortization	102,439	95,872	68,324
Real estate taxes, personal property taxes, property insurance, and ground rent	50,488	46,947	36,878
General and administrative	28,105	32,335	28,322
Impairment loss	12,148	—	—
Total operating expenses	677,104	643,229	507,511
Operating income (loss)	139,317	127,635	91,265
Interest income	1,995	2,511	2,529
Interest expense	(43,615)	(38,774)	(27,065)
Other	283	—	—
Gain on sale of hotel properties	40,690	—	—
Equity in earnings (loss) of joint venture	(64,842)	6,213	10,065
Income (loss) before income taxes	73,828	97,585	76,794
Income tax (expense) benefit	134	(2,590)	(3,251)
Net income (loss)	73,962	94,995	73,543
Net income (loss) attributable to non-controlling interests	258	327	677
Net income (loss) attributable to the Company	73,704	94,668	72,866
Distributions to preferred shareholders	(19,662)	(25,950)	(25,079)
Issuance costs of redeemed preferred shares	(7,090)	—	—
Net income (loss) attributable to common shareholders	$46,952	$68,718	$47,787
Net income (loss) per share available to common shareholders, basic	$0.65	$0.95	$0.72
Net income (loss) per share available to common shareholders, diluted	$0.64	$0.94	$0.71
Weighted-average number of common shares, basic	71,901,499	71,715,870	65,646,712
Weighted-average number of common shares, diluted	72,373,242	72,384,289	66,264,118

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income - Continued
(In thousands, except share and per-share data)

	For the year ended December 31,		
	2016	2015	2014
Comprehensive Income:			
Net income (loss)	$73,962	$94,995	$73,543
Other comprehensive income (loss):			
Unrealized gain (loss) on derivative instruments	2,438	(4,409)	(1,427)
Comprehensive income (loss)	76,400	90,586	72,116
Comprehensive income (loss) attributable to non-controlling interests	266	313	665
Comprehensive income (loss) attributable to the Company	$76,134	$90,273	$71,451

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

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Pebblebrook Hotel Trust
Consolidated Statements of Equity
(In thousands, except share data)

	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total Equ
	Shares	Amount	Shares	Amount						
Balance at December 31, 2013	13,000,000	$130	63,709,628	$637	$1,541,138	$1,086	$(69,652)	$1,473,339	$1,745	$1,475,0
Issuance of shares, net of offering costs	1,000,000	10	7,530,000	75	316,825	—	—	316,910	—	316,910
Issuance of common shares for Board of Trustee compensation	—	—	13,793	—	421	—	—	421	—	421
Repurchase of common shares	—	—	(20,539)	—	(632)	—	—	(632)	—	(632
Share-based compensation	—	—	62,498	1	9,085	—	—	9,086	2,609	11,695
Distributions on common shares/units	—	—	—	—	—	—	(62,298)	(62,298)	(559)	(62,857
Distributions on preferred shares	—	—	—	—	—	—	(25,079)	(25,079)	(16)	(25,095
Redemption of non-controlling LTIP units	—	—	258,101	3	(2,098)	—	—	(2,095)	(3,136)	(5,231
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	(1,427)	—	(1,427)	—	(1,427
Net income (loss)	—	—	—	—	—	—	72,866	72,866	677	73,543
Balance at December 31, 2014	14,000,000	$140	71,553,481	$716	$1,864,739	$(341)	$(84,163)	$1,781,091	$1,320	$1,782,4
Issuance of shares, net of offering costs	—	—	—	—	(195)	—	—	(195)	—	(195
Issuance of common shares	—	—	8,084	—	372	—	—	372	—	372

for Board of Trustee compensation											
Repurchase of common shares	—	—	(84,835)	—	(4,094)	—	—	(4,094)	—	(4,094)
Share-based compensation	—	—	258,399	1	7,225	—	—	7,226	1,105	8,331
Distributions on common shares/units	—	—	—	—	—	—	(90,320)	(90,320)	(292)	(90,612)
Distributions on preferred shares	—	—	—	—	—	—	(25,950)	(25,950)	(15)	(25,965)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	(4,409)	—	(4,409)	—	(4,409)
Net income (loss)	—	—	—	—	—	—	94,668	94,668	327	94,995
Balance at December 31, 2015	14,000,000	$140	71,735,129	$717	$1,868,047	$(4,750)	$(105,765)	$1,758,389	$2,445	$1,760,8
Issuance of shares, net of offering costs	5,000,000	50	—	—	120,758	—	—	120,808	—	120,808
Redemption of preferred shares	(9,000,000)	(90)	—	—	(217,870)	—	(7,090)	(225,050)	—	(225,050)
Issuance of common shares for Board of Trustee compensation	—	—	21,407	—	606	—	—	606	—	606
Repurchase of common shares	—	—	(88,510)	(1)	(2,495)	—	—	(2,496)	—	(2,496)

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Share-based compensation	—	—	254,878	3	7,358	—	—	7,361	1,105	8,466
Distributions on common shares/units	—	—	—	—	—	—	(110,414)	(110,414)	(359)	(110,773)
Distributions on preferred shares	—	—	—	—	—	—	(19,662)	(19,662)	(17)	(19,679)
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	2,438	—	2,438	—	2,438
Net income (loss)	—	—	—	—	—	—	73,704	73,704	258	73,962
Balance at December 31, 2016	10,000,000	$100	71,922,904	$719	$1,776,404	$(2,312)	$(169,227)	$1,605,684	$3,432	$1,609,116

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

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows
(In thousands)

	For the year ended December 31,		
	2016	2015	2014
Operating activities:			
Net income (loss)	$73,962	$94,995	$73,543
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	102,439	95,872	68,324
Share-based compensation	8,466	8,331	11,695
Gain on derivative instruments	(283)	—	—
Amortization of deferred financing costs and mortgage loan premiums	1,513	(29)	(604)
Gain on sale of hotel properties	(40,690)	—	—
Impairment loss	12,148	—	—
Non-cash ground rent	2,762	2,380	2,252
Equity in (earnings) loss from joint venture	66,636	(3,824)	(7,676)
Other	2,654	2,038	407
Changes in assets and liabilities:			
Restricted cash, net	1,288	1,635	71
Hotel receivables	1,263	(3,107)	(3,544)
Prepaid expenses and other assets	2,286	(212)	(3,763)
Distributions from joint venture	—	13,858	9,152
Accounts payable and accrued expenses	4,492	4,161	10,598
Advance deposits	2,324	4,622	829
Net cash provided by (used in) operating activities	241,260	220,720	161,284
Investing activities:			
Acquisition of hotel properties	—	(305,146)	(575,748)
Improvements and additions to hotel properties	(121,899)	(99,785)	(52,553)
Proceeds from joint venture redemption	2,530	—	—
Deposit on hotel properties	3,000	(3,000)	—
Proceeds from sale of hotel properties	364,390	—	—
Receipt from (acquisition of) note receivable	50,000	3,020	(3,020)
Purchase of corporate office equipment, software, and furniture	(74)	(278)	(1,146)
Restricted cash, net	746	5,295	28
Property insurance proceeds	—	—	1,113
Net cash provided by (used in) investing activities	298,693	(399,894)	(631,326)
Financing activities:			
Gross proceeds from issuance of common shares	—	—	293,211
Gross proceeds from issuance of preferred shares	125,000	—	25,000
Payment of offering costs — common and preferred shares	(4,189)	(195)	(1,301)
Payment of deferred financing costs	(1,414)	(3,311)	(3,696)
Borrowings under senior revolving credit facility	469,000	490,000	180,000
Repayments under senior revolving credit facility	(552,000)	(375,000)	(130,000)
Proceeds from term loans	150,000	225,000	200,000
Proceeds from senior unsecured notes	—	100,000	—

Repayments of mortgage debt	(365,583)	(171,488)	(9,123)

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows - Continued
(In thousands)

Repurchase of common shares	(2,496)	(4,094)	(632)
Redemption of non-controlling interests	—	—	(5,231)
Redemption of preferred shares	(225,050)	—	—
Distributions — common shares/units	(105,321)	(84,037)	(55,708)
Distributions — preferred shares	(21,770)	(25,950)	(24,731)
Proceeds from membership deposits	1,658	2,302	—
Repayments of membership deposits	(723)	(591)	—
Net cash provided by (used in) financing activities	(532,888)	152,636	467,789
Net change in cash and cash equivalents	7,065	(26,538)	(2,253)
Cash and cash equivalents, beginning of year	26,345	52,883	55,136
Cash and cash equivalents, end of year	$33,410	$26,345	$52,883

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

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PEBBLEBROOK HOTEL TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Pebblebrook Hotel Trust (the "Company") was formed as a Maryland real estate investment trust in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major United States cities, with an emphasis on major gateway coastal markets.

As of December 31, 2016, the Company owned 29 hotels with a total of 7,219 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Boston, Massachusetts; Miami (Coral Gables), Florida; Minneapolis, Minnesota; Naples, Florida; Nashville, Tennessee; New York, New York; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Santa Monica, California; Seattle, Washington; Stevenson, Washington; Washington, D.C.; West Hollywood, California; and Los Angeles (Beverly Hills), California.

Substantially all of the Company’s assets are held by, and all of the Company's operations are conducted through, Pebblebrook Hotel, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 2016, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL"), the Company’s taxable REIT subsidiary ("TRS"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company’s financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Company and its subsidiaries are separate legal entities and maintain records and books of account separate and apart from each other. The consolidated financial statements include all of the accounts of the Company and its subsidiaries and are presented in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities that the Company does not control, but over which the Company has the ability to exercise significant influence regarding operating and financial policies, are accounted for under the equity method.

Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation as a result of adopting ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management’s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Risks and Uncertainties

The state of the overall economy can significantly impact hotel operational performance and thus, impact the Company's financial position. Should any of the hotels experience a significant decline in operational performance, it may affect the Company's ability to make distributions to our shareholders and service debt or meet other financial obligations.

Fair Value Measurements

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability in an orderly transaction. The hierarchy for inputs used in measuring fair value are as follows:

1. Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations whose inputs are observable.

3. Level 3 – Model-derived valuations with unobservable inputs.

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts payable and accrued expenses. Due to their short maturities, the carrying amounts of these assets and liabilities approximate fair value. See Note 6 to the accompanying financial statements for disclosures on the fair value of debt and derivative instruments.

Investment in Hotel Properties

Upon acquisition of a hotel property, the Company allocates the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangements in connection with the transaction, including terms that are above or below market compared to an estimated market agreement at the acquisition date. Acquisition-date fair values of assets and assumed liabilities are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers and that use appropriate discount and/or capitalization rates and available market information.

Acquisition costs are expensed as incurred and are included in general and administrative expenses on the statement of operations.

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

Hotel properties are recorded at cost and depreciated using the straight-line method over an estimated useful life of 10 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract.

The Company is required to make subjective assessments as to the useful lives and classification of properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets. These assessments may impact the Company’s results of operations.

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

The Company will classify a hotel as held for sale and will cease recording depreciation expense when a binding agreement to sell the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, approval of the Company's board of trustees (the "Board of Trustees") has been obtained, no significant financing contingencies exist, and the sale is expected to close within one year. If the fair value less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. The Company will classify the loss, together with the related operating results, as continuing or discontinuing operations on the statements of operations and classify the assets and related liabilities as held for sale on the balance sheet.

Investment in Joint Venture

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The Company reviews its investment in joint venture for impairment annually or at interim periods if events or circumstances indicate that the investment may be impaired. The investment is impaired when its estimated fair value is less than the carrying amount of the investment and that impairment is other than temporary.

Intangible Assets and Liabilities

Intangible assets or liabilities are recorded on non-market contracts assumed as part of the acquisition of certain hotels. The Company reviews the terms of agreements assumed in conjunction with the purchase of a hotel to determine if the terms are over or under market compared to an estimated market agreement at the acquisition date. Under market lease assets or over market contract liabilities are recorded at the acquisition date and amortized using the straight-line method over the term of the agreement. The Company does not amortize intangible assets with indefinite useful lives, but reviews these assets for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term liquid investments with an original maturity of three months or less. The Company maintains cash and cash equivalents balances in excess of insured limits with various financial institutions. This may subject the Company to significant concentrations of credit risk. The Company performs periodic evaluations of the credit quality of these financial institutions.

Restricted Cash

Restricted cash primarily consists of reserves for replacement of furniture and fixtures and cash held in escrow pursuant to lender requirements to pay for real estate taxes or property insurance.

Prepaid Expenses and Other Assets

The Company's prepaid expenses and other assets consist of prepaid real estate taxes, prepaid insurance, deposits on hotel acquisitions, inventories, over or under market leases, and corporate office equipment and furniture.

Derivative Instruments

In the normal course of business, the Company is exposed to the effects of interest rate changes. The Company may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are recorded at fair value on the balance sheet date. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of a cash flow hedge are recognized as increases or decreases to interest expense.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary amenities. Revenue is recognized when rooms are occupied and services have been rendered. For retail operations, revenue is recognized on a straight-line basis over the lives of the retail leases. The Company recognizes revenue related to membership initiation fees and deposits over the expected life of an active membership. For membership initiation deposits, the difference between the amount paid by the member and the present value of the refund obligation is deferred and recognized within other operating revenues on the consolidated statements of operations over the expected life of an active membership. The present value of the refund obligation is recorded as a membership initiation deposit liability in the consolidated balance sheets and accretes over the nonrefundable term using the effective interest method with an interest rate defined as the incremental borrowing rate. The accretion is included in interest expense.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the statement of operations. Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an allowance for doubtful accounts sufficient to cover estimated potential credit losses.

Income Taxes

To qualify as a REIT for federal income tax purposes, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90 percent of its REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to its

shareholders. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its taxable income that is currently distributed to shareholders. The Company is subject to certain state and local taxes on its income and property, and to federal income and

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excise taxes on its undistributed taxable income. In addition, PHL, which leases the Company's hotels from the Operating Partnership, is subject to federal and state income taxes. The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-based Compensation

The Company has adopted an equity incentive plan that provides for the grant of common share options, share awards, share appreciation rights, performance units and other equity-based awards. Equity-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. Share-based compensation awards that contain a performance condition are reviewed at least quarterly to assess the achievement of the performance condition. Compensation expense will be adjusted when a change in the assessment of achievement of the specific performance condition level is determined to be probable. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of the Company's shares, expected dividend yield, expected term and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing the net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) available to common shareholders, as adjusted for dilutive securities, by the weighted-average number of common shares outstanding plus dilutive securities. Any anti-dilutive securities are excluded from the diluted per-share calculation.

Comprehensive Income

The purpose of reporting comprehensive income is to report a measure of all changes in equity of an entity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. Comprehensive income consists of all components of income, including other comprehensive income, which is excluded from net income.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company has evaluated each of its revenue streams under the new model. Based on preliminary assessments, the Company does not expect adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation - Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity ("VIE") and voting interest entity ("VOE") consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The Company adopted this standard on January 1, 2016 and concluded that no change was required to its accounting for its joint venture. However, the Operating Partnership now meets the criteria as a VIE, the Company is the primary beneficiary and, accordingly, the Company continues to consolidate the Operating Partnership. The Company's sole significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company's debt is an obligation of the Operating Partnership.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. The Company adopted this standard on January 1, 2016 and presents all debt issuance costs, other than

issuance costs related to its senior unsecured revolving credit facility, as a direct deduction from the carrying value of the debt liability. Adoption of this standard was applied retrospectively for all periods presented, affecting only the presentation of the balance sheet. The adoption of this standard did not have a material impact on the Company's financial position and had no impact on the results of operations or cash flows.

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In August 2015, the FASB issued ASU No. 2015-15, Interest — Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. In particular, ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted this standard on January 1, 2016 and elected to continue presenting debt issuance costs related to its senior unsecured revolving credit facility as an asset which is included in prepaid expenses and other assets on the accompanying consolidated balance sheets. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No, 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as non-current on the balance sheet. The new standard is effective for the Company on January 1, 2017 but earlier adoption is permitted. The Company adopted this standard on January 1, 2016 and it did not have an impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also 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 classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. This ASU is expected to result in the recognition of right-to-use assets and related liabilities to account for the Company's future obligations under the ground lease arrangements for the Company as the lessee. The Company will continue to evaluate the potential effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Award Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold up to the maximum individual statutory tax rate of the shares upon settlement of an award without causing the award to be classified as liability. This guidance is effective for the Company on January 1, 2017, however, early adoption is permitted. The Company early adopted this standard on April 1, 2016 and it did not have an impact on the Company's financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Payment, which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. This guidance is effective for the Company for annual periods beginning after December 15, 2017 but earlier adoption is permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies how companies should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires companies to show the changes in the total of cash, cash equivalents, restricted cash equivalents in the statement of cash flows. This guidance is effective for the Company for years beginning after December 15, 2017 , including interim periods within those years and should be applied retroactively. Early adoption is permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated

financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

Note 3. Acquisition and Disposition of Hotel Properties

Acquisitions

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The Company had no hotel acquisitions, other than obtaining full ownership of the Dumont NYC and Manhattan NYC from the Manhattan Collection joint venture redemption transaction, during the year ended December 31, 2016. The Company allocated the fair value of the Dumont NYC as follows: $33.3 million to land, $77.3 million to building and improvements, and $0.3 million to furniture and fixtures. The allocation of fair value of Manhattan NYC was as follows: $86.0 million to land, $116.3 million to building and improvements, and $6.6 million to furniture and fixtures.

The following unaudited pro forma financial information presents the results of the Company for the years ended December 31, 2016 and 2015 as if the hotels acquired in 2015 had been acquired on January 1, 2015. The following hotels' pro forma results are included in the pro forma table below: LaPlaya Beach Resort and LaPlaya Beach Club; and The Tuscan Fisherman's Wharf. The results for the Dumont NYC and Manhattan NYC are not included in the pro forma results below because they are not meaningful. The pro forma results below exclude acquisition costs of zero and $4.7 million for the years ended December 31, 2016 and 2015, respectively. The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of either the results of operations that would have actually occurred had these transactions occurred or the future results of operations (in thousands, except per-share data).

	For the year ended December 31,	
	2016	2015
	(Unaudited)	
Total revenues	$816,421	$801,578
Operating income (loss)	139,317	141,487
Net income (loss) attributable to common shareholders	46,952	79,576
Net income (loss) per share available to common shareholders — basic	$0.65	$1.10
Net income (loss) per share available to common shareholders — diluted	$0.64	$1.09

For the year ended December 31, 2016, the Company's consolidated statements of operations included $15.4 million of revenues and $9.0 million of hotel operating expenses related to the operations of the Dumont NYC and Manhattan NYC.

Dispositions

The Company will report a disposed or held for sale hotel property or group of hotel properties in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on our operations and financial results. All other disposed hotel properties will have their operating results reflected within continuing operations on the Company's consolidated statements of operations for all periods presented.

On May 5, 2016, the Company sold an excess land parcel adjacent to the Revere Hotel Boston Common for $6.0 million. The Company recognized a gain of $3.3 million related to the sale of this land.

On June 1, 2016, the Company sold the Viceroy Miami for $64.5 million. The Company recognized a gain of $30.5 million related to the sale of this hotel property. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility and general corporate purposes.

On June 1, 2016, the Company sold the The Redbury Hollywood for $40.9 million. The Company recognized a gain of $6.5 million related to the sale of this hotel property. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility and general corporate purposes.

On November 2, 2016, the Company sold the DoubleTree by Hilton Hotel Bethesda -Washington DC for $50.1 million. In September 2016, the Company recognized a $12.1 million impairment loss related to this hotel property when the property was designated as held for sale. The impairment loss was determined using level 2 inputs (third-party offer price less estimated costs to sell) under authoritative guidance for fair value measurements. The Company recognized a gain of $0.4 million upon sale. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility and general corporate purposes.

On December 20, 2016, the Company sold the Manhattan NYC for $217.5 million. This hotel property was recorded at estimated fair value upon obtaining full ownership from the Manhattan Collection joint venture redemption transaction. The

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Company recognized no gain or loss related to the sale of this hotel property upon sale. Proceeds were used to repay the $140.0 million mortgage secured by the hotel, to repay amounts outstanding on the revolving credit facility, and for general corporate purposes.

For the years ended December 31, 2016, 2015 and 2014, the Company's consolidated statements of operations included hotel operating income of $12.7 million, $12.8 million and $13.4 million, respectively, related to the hotel properties sold.

The sales of land and hotel properties described above did not represent a strategic shift that had a major effect in the Company’s operations and financial results, and therefore, did not qualify as discontinued operations.

Note 4. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2016 and December 31, 2015 consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Land	$ 503,571	$ 499,381
Buildings and improvements	2,287,104	2,225,168
Furniture, fixtures and equipment	231,211	205,890
Construction in progress	9,253	26,322
Investment in hotel properties	$ 3,031,139	$ 2,956,761
Less: Accumulated depreciation	(358,485)	(283,177)
Investment in hotel properties, net	$ 2,672,654	$ 2,673,584

As of December 31, 2016 and 2015, buildings and improvements include capital lease asset of $12.2 million and $12.2 million, respectively, and accumulated depreciation includes amounts related to capital lease asset of $0.7 million and $0.4 million respectively. Depreciation of capital lease asset is included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income for all periods presented.

Note 5. Investment in Joint Venture

On July 29, 2011, the Company acquired a 49% interest in a joint venture (the “Manhattan Collection joint venture”), which owned six properties in New York, New York. The transaction valued the six hotels at approximately $908.0 million (subject to working capital and similar adjustments). The Company accounted for this investment using the equity method.

In conjunction with the joint venture's refinancing in 2012, the Company provided the joint venture a $50.0 million unsecured special loan which matures at the earlier of July 4, 2018, the closing of any refinancing of the secured loan or the closing date of a portfolio sale (as defined in the loan agreement). The unsecured special loan bears interest at an annual fixed rate of 9.75% and requires interest-only payments through maturity. The unsecured special loan is pre-payable by the joint venture at any time. The unsecured special loan to the joint venture was included in the investment in joint venture on the consolidated balance sheets. Interest income is recorded on the accrual basis and the Company's 49% pro-rata portion of the special loan and related interest income was eliminated.

On July 29, 2016, the Company notified its joint venture partner of its intention to liquidate its interest in the joint venture, pursuant to the joint venture agreement. On September 19, 2016, the Company entered into an agreement with its joint venture partner to redeem the Company's entire 49% interest in the joint venture (the "redemption transaction"). As of September 30, 2016, the Company determined that its investment in the joint venture had experienced an other than temporary decline, due to the shortened hold period of this investment, and it recognized an impairment loss of $62.6 million, as a reduction of the carrying value of the investment. The impairment loss was determined using level 2 inputs (third-party offer prices) under authoritative guidance for fair value measurements. The Company closed on the redemption transaction on October 19, 2016. Upon closing, the Company became the 100.0% owner of two hotels, the Manhattan NYC and Dumont NYC, which were previously owned by the joint

venture. In addition, the Company assumed the $140.0 million mortgage loan secured by the Manhattan NYC ("Manhattan NYC loan") and the $50.0 million mortgage loan secured by the Dumont NYC. The Company immediately repaid the $50.0 million mortgage loan secured by the Dumont NYC. The Manhattan NYC loan had a maturity date of October 18, 2017 and bore interest at a floating rate of 1-month LIBOR plus 1.65% per annum. In addition, the Company was repaid the $50.0 million unsecured special loan it made to the joint venture in 2012. Upon closing of the redemption transaction, the Manhattan Collection joint venture ceased.

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On December 20, 2016, the Company sold the Manhattan NYC for $217.5 million and repaid the $140.0 million mortgage loan secured by the hotel. The Company is currently marketing the Dumont NYC property for sale.

The summarized results of operations of the Company's investment in the Manhattan Collection joint venture for the years ended December 31, 2016 (through October 18, 2016, the closing date of the redemption transaction), 2015 and 2014 are presented below (in thousands):

	For the year ended December 31,		
	2016 [1]	2015	2014
Revenues	$131,836	$177,775	$185,609
Total expenses	140,116	171,109	169,683
Net income (loss)	$(8,280)	$6,666	$15,926
Company's 49% interest of net income (loss)	(4,057)	3,266	7,804
Basis adjustment	44	558	(128)
Special loan interest income elimination	1,793	2,389	2,389
Impairment loss	(62,622)	—	—
Equity in earnings (loss) in joint venture	$(64,842)	$6,213	$10,065

[1] The amounts in this column are for the period from January 1, 2016 to October 18, 2016, which was the closing date of the redemption transaction.

The Company classifies the distributions from the Manhattan Collection joint venture in the statements of cash flows based upon an evaluation of the specific facts and circumstances of each distribution. For example, distributions from cash generated by property operations are classified as cash flows from operating activities. However, distributions received as a result of property sales are classified as cash flows from investing activities.

Note 6. Debt

Senior Unsecured Revolving Credit Facility

On May 19, 2015, the Company exercised the accordion feature under the amended and restated credit agreement that governs the Company's senior unsecured revolving credit facility and the Company's unsecured term loan facility to increase the aggregate borrowing capacity by $150.0 million to $750.0 million. The Company's $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility and a $300.0 million unsecured term loan (the "First Term Loan"). The revolving credit facility matures in January 2019 with options to extend the maturity date to January 2020. The First Term Loan matures in January 2020. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement to up to $1.0 billion, subject to lender approval. Borrowings on the revolving credit facility bear interest at LIBOR plus 1.55% to 2.30%, depending on the Company's leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value. As of December 31, 2016 and 2015, the Company had $82.0 million and $165.0 million, respectively, in outstanding borrowings under the revolving credit facility. As of December 31, 2016, the Company had $368.0 million borrowing capacity remaining under its unsecured revolving credit facility. As of December 31, 2016, the Company was in compliance with the credit agreement debt covenants. For the years ended December 31, 2016, 2015 and 2014, the Company incurred unused commitment fees of $1.0 million, $0.6 million and $0.7 million, respectively.

Unsecured Term Loan Facilities

As of December 31, 2016, the Company had $300.0 million outstanding under the First Term Loan which matures in January 2020. This term loan facility bears interest at a variable rate of LIBOR plus 1.50% to 2.25%, depending on the Company's leverage ratio.

On April 13, 2015, the Company entered into a second unsecured term loan facility (the "Second Term Loan"). The Second Term Loan has a $100.0 million capacity, which may be increased to up to $200.0 million, subject to lender

approval, and matures in April 2022. On January 5, 2016, the Company exercised its accordion option to increase the borrowing capacity under the Second Term Loan to $175.0 million. As of December 31, 2016, the Company had $175.0 million outstanding under the Second Term Loan. The Second Term Loan bears interest at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

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On June 10, 2015, the Company entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, the Company exercised its accordion option to increase the borrowing capacity under the Third Term Loan to $200.0 million. As of December 31, 2016, the Company had $200.0 million outstanding under the Third Term Loan. This Third Term Loan bears interest at a variable rate of LIBOR plus 1.45% to 2.20%, depending on the Company's leverage ratio.

As of December 31, 2016 and December 31, 2015, the Company had $675.0 million and $525.0 million, respectively, in outstanding borrowings under the unsecured term loan facilities. Each of the term loan facilities is subject to debt covenants substantially similar to the covenants under the amended and restated credit agreement. As of December 31, 2016, the Company was in compliance with all debt covenants of its term loan facilities. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for all of its unsecured term loan facilities, except for $75.0 million on the Second Term Loan (see “Derivative and Hedging Activities” below).

Senior Unsecured Notes

On November 12, 2015, the Company issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, the Company issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025. The Series A Notes and the Series B Notes are subject to debt covenants substantially similar to the covenants under the amended and restated credit agreement. As of December 31, 2016, the Company was in compliance with all such debt covenants.

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. All of the Company's interest rate swaps are cash flow hedges. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of a cash flow hedge are recognized as other expense in the consolidated statements of operations and comprehensive income.

As of December 31, 2016, the Company had interest rate swaps with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan and, as a result, the First Term Loan had a weighted-average effective interest rate of 2.93% through July 13, 2017 and a weighted-average effective interest rate of 3.51% from July 13, 2017 through January 15, 2020, based on the Company’s leverage ratio at December 31, 2016.

The Company entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate for the entire duration of the Second Term Loan, and, as a result, the Second Term Loan had a weighted-average effective interest rate of 3.46%, based on the Company’s leverage ratio at December 31, 2016. The remaining $75.0 million borrowing under the Second Term Loan remains floating at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

The Company entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate for the entire duration of the Third Term Loan, and, as a result, the Third Term Loan had a weighted-average effective interest rate of 3.21%, based on the Company’s leverage ratio at December 31, 2016.

The Company records all derivative instruments at fair value in the consolidated balance sheets. Fair values of interest rate swaps are determined using the standard market methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Variable interest rates used in the calculation of projected receipts and payments on the swaps are based on an expectation of future interest rates derived from observable market interest rate curves (Overnight Index Swap curves) and volatilities (level 2 inputs).

Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company incorporates these counterparty credit risks in its fair value measurements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of December 31, 2016, the Company's derivative instruments were in both asset and liability positions, with aggregate asset and liability fair values of $1.3 million and $3.4 million, respectively, in the accompanying

consolidated balance sheets. For the years ended December 31, 2016, 2015 and 2014, there was $2.4 million, $(4.4) million and $(1.4) million in unrealized gain (loss), respectively, recorded in accumulated other comprehensive income. For the years ended December 31, 2016, 2015 and 2014, the Company recorded a gain of $0.3 million, zero and zero, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. For the years ended December 31, 2016, 2015 and 2014, the Company reclassified $6.2 million, $5.4 million and $0.6 million, respectively, from accumulated other comprehensive income (loss) to interest expense.

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The Company expects approximately $4.0 million will be reclassified from accumulated other comprehensive income (loss) to interest expense in the next 12 months.

Mortgage Debt

Each of the Company’s mortgage loans is secured by a first mortgage lien or by leasehold interests under the ground lease on the underlying property. The mortgages are non-recourse to the Company except for customary carve-outs such as fraud or misapplication of funds.

On April 5, 2016, the Company repaid the $62.8 million mortgage loan on the Embassy Suites San Diego Bay - Downtown, without penalty, using proceeds from the senior unsecured revolving credit facility.

On May 5, 2016, the Company repaid the $22.7 million mortgage loan on the Hotel Modera, without penalty, using proceeds from the senior unsecured revolving credit facility.

On November 10, 2016, the Company repaid the $42.1 million mortgage on the Hotel Monaco Washington DC, without penalty, using proceeds from the senior unsecured revolving credit facility.

On December 1, 2016, the Company repaid the $41.7 million mortgage on the Argonaut Hotel, without penalty, using proceeds from the senior unsecured revolving credit facility.

The Company intends to repay the mortgage on the Sofitel Philadelphia at or prior to the loan's maturity date with borrowings under its senior unsecured revolving credit facility.

Debt Summary

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

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	Interest Rate	Maturity Date	Balance Outstanding as of December 31, 2016	December 31, 2015
Senior unsecured revolving credit facility	Floating [1]	January 2019	$82,000	$165,000
Term loans				
First Term Loan	Floating[2]	January 2020	300,000	300,000
Second Term Loan	Floating[2]	April 2022	175,000	100,000
Third Term Loan	Floating[2]	January 2021	200,000	125,000
Total term loans at stated value			675,000	525,000
Deferred financing costs, net			(3,207)	(3,117)
Total term loans			$671,793	$521,883
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(540)	(608)
Total senior unsecured notes			$99,460	$99,392
Mortgage loans				
Embassy Suites San Diego Bay - Downtown	6.28%	June 2016	—	63,116
Hotel Modera	5.26%	July 2016	—	22,833
Hotel Monaco Washington DC	4.36%	February 2017	—	42,895
Argonaut Hotel	4.25%	March 2017	—	42,823
Sofitel Philadelphia	3.90%	June 2017	44,320	45,668
Hotel Zelos San Francisco	5.94%	September 2017	25,718	26,098
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	72,852	75,040
Mortgage loans at stated value			142,890	318,473
Mortgage loan premiums and deferred financing costs [3]			108	847
Total mortgage loans			$142,998	$319,320
Total debt			$996,251	$1,105,595

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[1] Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the senior unsecured credit agreement) plus an applicable margin. The Company has two six-month extension options.

[2] Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rate for the First Term Loan, a portion of the Second Term Loan and the Third Term Loan. At December 31, 2016 and December 31, 2015, the Company had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan. See "Derivative and Hedging Activities" above.

[3] As of December 31, 2016, loan premium on assumed mortgage recorded in purchase accounting for the Hotel Zelos San Francisco.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms and is classified within level 2 of the fair value hierarchy. The estimated fair value of the Company’s fixed rate debt (unsecured senior notes and mortgage loans) as of December 31, 2016 and December 31, 2015 was $242.9

million and $465.4 million, respectively.

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The Company was in compliance with all debt covenants as of December 31, 2016.

Future scheduled debt principal payments for the Company's debt as of December 31, 2016 are as follows (in thousands):

2017	$72,316
2018	2,366
2019	84,456
2020	365,752
2021	200,000
Thereafter	275,000
Total debt principal payments	999,890
Mortgage loan premiums and deferred financing costs	(3,639)
Total debt	$996,251

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, $.01 par value per share (“common shares”). Each outstanding common share entitles the holder to one vote on each matter submitted to a vote of shareholders. Holders of the Company’s common shares are entitled to receive dividends when authorized by the Board of Trustees.

On March 5, 2014, the Company filed a prospectus supplement with the SEC to sell up to $175.0 million in common shares under a new "at the market" offering program (an "ATM program"). At the same time, the Company terminated its prior $170.0 million ATM program. As of December 31, 2016, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program.

On February 22, 2016, the Company announced that the Board of Trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. As of December 31, 2016, the Company had made no repurchases under this program.

Common Dividends

The Company declared the following dividends on common shares/units for the year ended December 31, 2016:

Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
$0.38	March 31, 2016	March 31, 2016	April 15, 2016
$0.38	June 30, 2016	June 30, 2016	July 15, 2016
$0.38	September 30, 2016	September 30, 2016	October 17, 2016
$0.38	December 31, 2016	December 30, 2016	January 17, 2017

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, $.01 par value per share (“preferred shares”).

On March 11, 2016, the Company redeemed all 5,600,000 of its 7.875% Series A Cumulative Redeemable Preferred Shares ("Series A Preferred Shares") at a redemption amount of $25.00 per share plus $0.31 per share of accrued and unpaid dividends.

On June 9, 2016, the Company issued 5,000,000 of its 6.375% Series D Cumulative Redeemable Preferred Shares (“Series D Preferred Shares”) at a public offering price of $25.00 per share, for net proceeds of approximately $121.1 million, after deducting the underwriting discount and other offering-related costs.

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On September 21, 2016, the Company redeemed all 3,400,000 of its 8.00% Series B Cumulative Redeemable Preferred Shares ("Series B Preferred Shares") at a redemption amount of $25.00 per share plus $0.38 per share of accrued and unpaid dividends.

As of December 31, 2016, the Company had none of its Series A and Series B Preferred Shares, 5,000,000 of its 6.50% Series C Preferred Shares ("Series C Preferred Shares") and 5,000,000 of its 6.375% Series D Preferred shares outstanding. As of December 31, 2015, the Company had 5,600,000 of its Series A Preferred Shares, 3,400,000 of its Series B Preferred shares and 5,000,000 of its Series C Preferred Shares outstanding.

The Series C Preferred Shares and Series D Preferred Shares (collectively, the “Preferred Shares”) rank senior to the Company's common shares and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares, do not have any maturity date and are not subject to mandatory redemption. The Company could not redeem the Series A Preferred Shares prior to March 11, 2016 or the Series B Preferred Shares prior to September 21, 2016 and the Company may not redeem the Series C Preferred Shares or Series D Preferred Shares prior to March 18, 2018 and June 9, 2021, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. On or after those dates, the Company may, at its option, redeem the applicable Preferred Shares, in whole or from time to time in part, by payment of $25.00 per share, plus any accumulated, accrued and unpaid distributions through the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which the Company’s common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days following the change of control by paying $25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares based on a defined formula subject to a share cap. The share cap on each Series C Preferred Share is 2.0325 common shares and each Series D Preferred Share is 1.9794 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the year ended December 31, 2016:

Security Type	Dividend per Share/Unit	For the quarter ended	Record Date	Payable Date
7.875% Series A	$ 0.31	March 31, 2016	March 31, 2016	April 15, 2016
8.00% Series B	$ 0.50	March 31, 2016	March 31, 2016	April 15, 2016
8.00% Series B	$ 0.50	June 30, 2016	June 30, 2016	July 15, 2016
8.00% Series B	$ 0.38	September 30, 2016	September 30, 2016	October 17, 2016
6.50% Series C	$ 0.41	March 31, 2016	March 31, 2016	April 15, 2016
6.50% Series C	$ 0.41	June 30, 2016	June 30, 2016	July 15, 2016
6.50% Series C	$ 0.41	September 30, 2016	September 30, 2016	October 17, 2016
6.50% Series C	$ 0.41	December 31, 2016	December 30, 2016	January 17, 2017
6.375% Series D	$ 0.16	June 30, 2016	June 30, 2016	July 15, 2016
6.375% Series D	$ 0.40	September 30, 2016	September 30, 2016	October 17, 2016
6.375% Series D	$ 0.40	December 31, 2016	December 30, 2016	January 17, 2017

Non-controlling Interest of Common Units in Operating Partnership

Holders of Operating Partnership units have certain redemption rights that enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company’s option, cash per unit equal to the market price of the Company’s common shares at the time of redemption or the Company’s common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the Operating Partnership's limited partners or the Company's shareholders.

As of December 31, 2016 and December 31, 2015, the Operating Partnership had 236,351 long-term incentive partnership units ("LTIP units") outstanding. Of the 236,351 LTIP units outstanding at December 31, 2016, 54,845 units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above.

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Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended and restated (the "Plan"), to attract and retain independent trustees, executive officers and other key employees and service providers. The Plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Share awards under the Plan vest over a period determined by the Board of Trustees, generally over three to five years, with certain awards vesting over periods of up to six years. The Company pays or accrues for dividends on share-based awards. All share awards are subject to full or partial accelerated vesting upon a change in control and upon death or disability or certain other employment termination events as set forth in the award agreements. As of December 31, 2016, there were 1,409,031 common shares available for issuance under the Plan, assuming performance-based equity awards vest at target.

Service Condition Share Awards

From time to time, the Company awards restricted shares under the Plan to members of the Board of Trustees, officers and employees. These shares generally vest over three to five years based on continued service or employment.

The following table provides a summary of service condition restricted share activity as of December 31, 2016:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2014	147,881	$ 24.59
Granted	44,322	$ 30.11
Vested	(62,047)	$ 23.12
Forfeited	(168)	$ 27.57
Unvested at December 31, 2014	129,988	$ 27.17
Granted	46,446	$ 48.00
Vested	(50,827)	$ 25.70
Forfeited	(990)	$ 36.45
Unvested at December 31, 2015	124,617	$ 35.46
Granted	68,535	$ 23.87
Vested	(52,452)	$ 32.79
Forfeited	(4,809)	$ 30.66
Unvested at December 31, 2016	135,891	$ 30.82

The fair value of each of these service condition restricted share awards is determined based on the closing price of the Company’s common shares on the grant date and compensation expense is recognized on a straight-line basis over the vesting period. For the years ended December 31, 2016, 2015 and 2014, the Company recognized approximately $1.8 million, $1.6 million and $1.4 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. As of December 31, 2016, there was $2.4 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.0 years.

Performance-Based Equity Awards

On February 8, 2012, the Board of Trustees approved a target award of 72,056 performance-based equity awards to officers and employees of the Company. In February 2015, these awards vested and the Company issued 120,016 and 87,556 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested were based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2012 through December 31, 2014.

On January 30, 2013, the Board of Trustees approved a target award of 72,118 performance-based equity awards to officers and employees of the Company. In January 2016, these awards vested and the Company issued 120,730 and

56,562 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested were based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2013 through December 31, 2015.

On December 13, 2013, the Board of Trustees approved a target award of 252,088 performance-based equity awards to officers and employees of the Company. The awards vest ratably on January 1, 2016, 2017, 2018, 2019 and 2020. The actual

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number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined on each vesting date based upon the two performance criteria as defined in the award agreements for the period of performance beginning on the grant date and ending on the applicable vesting date. In January 2016, one-fifth of these awards vested and the Company issued 25,134 of common shares which represented achieving 49% of the 50,418 target number of shares. In January 2017, one-fifth of these awards vested and the Company issued 12,285 of common shares which represented achieving 25% of the 49,914 target number of shares.

On February 4, 2014, the Board of Trustees approved a target award of 66,483 performance-based equity awards to officers and employees of the Company. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 10,092 target awards to non-executive management employees which have no maximum) and will be determined in 2017 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2014 through December 31, 2016.

On February 11, 2015, the Board of Trustees approved a target award of 44,962 performance-based equity awards to officers and employees of the Company. These awards vest on January 1, 2018. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 8,559 target awards to non-executive management employees which have no maximum) and will be determined in 2018 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2015 through December 31, 2017.

On July 27, 2015, a target award of 771 performance-based equity awards was granted to an employee of the Company. This award vests on January 1, 2018. The actual number of common shares that ultimately vest will be determined in 2018 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2017.

On February 10, 2016, the Board of Trustees approved a target award of 100,919 performance-based equity awards to officers and employees of the Company. These awards vest on January 1, 2019. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 17,372 target awards to non-executive management employees which have no maximum) and will be determined in 2019 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2018.

The grant date fair value of the performance awards, with market conditions, were determined using a Monte Carlo simulation method with the following assumptions:

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Performance Award Grant Date	Percentage of Total Award	Grant Date Fair Value by Component ($ in millions)	Volatility	Interest Rate	Dividend Yield
February 8, 2012					
Relative Total Shareholder Return	30.00%	$0.7	33.00%	0.34%	2.20%
Absolute Total Shareholder Return	30.00%	$0.6	33.00%	0.34%	2.20%
EBITDA Comparison	40.00%	$0.7	33.00%	0.34%	2.20%
January 30, 2013					
Relative Total Shareholder Return	30.00%	$0.7	31.00%	0.41%	2.20%
Absolute Total Shareholder Return	30.00%	$0.5	31.00%	0.41%	2.20%
EBITDA Comparison	40.00%	$0.7	31.00%	0.41%	2.20%
December 13, 2013					
Relative Total Shareholder Return	50.00%	$4.7	29.00%	0.34% - 2.25%	2.40%
Absolute Total Shareholder Return	50.00%	$2.9	29.00%	0.34% - 2.25%	2.40%
February 4, 2014					
Relative Total Shareholder Return	30.00%	$0.7	29.00%	0.62%	2.40%
Absolute Total Shareholder Return	30.00%	$0.5	29.00%	0.62%	2.40%
EBITDA Comparison	40.00%	$0.8	29.00%	0.62%	2.40%
February 11, 2015					
Relative Total Shareholder Return	30.00%	$0.9	22.00%	1.02%	2.50%
Absolute Total Shareholder Return	40.00%	$0.7	22.00%	1.02%	2.50%
EBITDA Comparison	30.00%	$0.7	22.00%	1.02%	2.50%
July 27, 2015					
Relative Total Shareholder Return	30.00%	—	[1] 22.00%	0.68%	2.50%
Absolute Total Shareholder Return	40.00%	—	[1] 22.00%	0.68%	2.50%
EBITDA Comparison	30.00%	—	[1] 22.00%	0.68%	2.50%
February 10, 2016					
Relative Total Shareholder Return	70.00%	$1.6	25.00%	0.71%	3.00%
Absolute Total Shareholder Return	15.00%	$0.2	25.00%	0.71%	3.00%
EBITDA Comparison	15.00%	$0.4	25.00%	0.71%	3.00%

(1)Amounts round to zero.

In the table above, the Relative Total Shareholder Return and Absolute Total Shareholder Return components are market conditions as defined by ASC 718. The EBITDA Comparison component is a performance condition as defined by ASC 718, and, therefore, compensation expense related to this component will be reassessed at each reporting date based on the Company's estimate of the probable level of achievement, and the accrual of compensation expense will be adjusted as appropriate.

Dividends on unvested performance-based equity awards accrue over the vesting period and will be paid on the actual number of shares that vest at the end of the applicable period. The Company recognizes compensation expense on a straight-

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line basis through the vesting date. As of December 31, 2016, there was approximately $8.9 million of unrecognized compensation expense related to these performance-based equity awards which will be recognized over the weighted-average remaining vesting period of 1.6 years. For the years ended December 31, 2016, 2015 and 2014, the Company recognized $5.6 million, $5.6 million and $7.7 million, respectively, in expense related to these awards.

Long-Term Incentive Partnership Units

LTIP units, which are also referred to as profits interest units, may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. LTIP units are a class of partnership unit in the Operating Partnership and receive, whether vested or not, the same per-unit profit distributions as the other outstanding units in the Operating Partnership, which equal per-share distributions on common shares. LTIP units are allocated their pro-rata share of the Company's net income (loss). Vested LTIP units may be converted by the holder, at any time, into an equal number of common Operating Partnership units and thereafter will possess all of the rights and interests of a common Operating Partnership unit, including the right to redeem the common Operating Partnership unit for a common share in the Company or cash, at the option of the Operating Partnership.

As of December 31, 2016, the Operating Partnership had two classes of LTIP units, LTIP Class A and LTIP Class B units, all of which are held by officers of the Company.

The Company granted 929,099 LTIP Class A units to executive officers of the Company at and shortly after the completion of its initial public offering in December 2009. These LTIP units vested ratably on each of the first five anniversaries of their dates of grant and were valued at $8.50 per LTIP unit at the date of grant using a Monte Carlo simulation method model.

On December 13, 2013, the Board of Trustees approved a grant of 226,882 LTIP Class B units to executive officers of the Company. These LTIP units are subject to time-based vesting in five equal annual installments beginning January 1, 2016 and ending on January 1, 2020. The fair value of each award was determined based on the closing price of the Company’s common shares on the grant date of $29.19 per unit. The aggregate grant date fair value of the LTIP Class B units was $6.6 million.

As of December 31, 2016, the Company had 236,351 LTIP units outstanding. All unvested LTIP units will vest upon a change in control. As of December 31, 2016, of the 236,351 units outstanding, 54,845 LTIP units have vested.

For the years ended December 31, 2016, 2015 and 2014, the Company recognized $1.1 million, $1.1 million and $2.6 million, respectively, in expense related to these units. As of December 31, 2016, there was $3.3 million of total unrecognized share-based compensation expense related to LTIP units. This unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.5 years. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company’s consolidated balance sheets.

Note 9. Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. 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 gains) 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 is not subject to federal corporate income tax on that portion of its taxable income that is currently distributed to shareholders. However, as a REIT, the Company is still subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income of TRSs is subject to federal, state and local income taxes. PHL is a TRS of the Company and as such is required to pay federal and state income taxes as a regular C Corporation.

For federal income tax purposes, the cash distributions paid to the Company’s common shareholders and preferred shareholders may be characterized as ordinary income, return of capital (generally non-taxable) or capital gains. Tax law permits certain characterization of distributions which could result in differences between cash basis and tax basis distribution amounts.

The following characterizes distributions paid per common share and preferred share on a tax basis for the years ended December 31, 2016, 2015 and 2014:

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	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Common Shares:						
Ordinary non-qualified income	$1.3794	95.14%	$1.1715	98.21%	$0.9108	100.00%
Qualified dividend	0.0704	4.86%	0.0213	1.79%	—	—%
Capital gain	—	—%	—	—%	—	—%
Return of capital	—	—%	—	—%	—	—%
Total	$1.4498	100.00%	$1.1928	100.00%	$0.9108	100.00%
Series A Preferred Shares:						
Ordinary non-qualified income	$0.2914	95.14%	$1.9336	98.21%	$2.3948	100.00%
Qualified dividend	0.0149	4.86%	0.0352	1.79%	—	—%
Capital gain	—	—%	—	—%	—	—%
Return of capital	—	—%	—	—%	—	—%
Total	$0.3063	100.00%	$1.9688	100.00%	$2.3948	100.00%
Series B Preferred Shares:						
Ordinary non-qualified income	$1.3109	95.14%	$1.9643	98.21%	$2.4328	100.00%
Qualified dividend	0.0669	4.86%	0.0357	1.79%	—	—%
Capital gain	—	—%	—	—%	—	—%
Return of capital	—	—%	—	—%	—	—%
Total	$1.3778	100.00%	$2.0000	100.00%	$2.4328	100.00%
Series C Preferred Shares:						
Ordinary non-qualified income	$1.5461	95.14%	$1.5960	98.22%	$1.9767	100.00%
Qualified dividend	0.0789	4.86%	0.0290	1.78%	—	—%
Capital gain	—	—%	—	—%	—	—%
Return of capital	—	—%	—	—%	—	—%
Total	$1.6250	100.00%	$1.6250	100.00%	$1.9767	100.00%
Series D Preferred Shares:						
Ordinary non-qualified income	$0.9099	95.15%	$—	—%	$—	—%
Qualified dividend	0.0464	4.85%	—	—%	—	—%
Capital gain	—	—%	—	—%	—	—%
Return of capital	—	—%	—	—%	—	—%
Total	$0.9563	100.00%	$—	—%	$—	—%

The common distribution declared on December 13, 2013 and paid on January 15, 2014 was treated as a 2014 distribution for tax purposes. For tax purposes, $0.4261, $0.4328 and $0.3517 of the Series A, Series B, and Series C, respectively, of the preferred share distributions declared on December 13, 2013 and paid on January 15, 2014 were treated as 2014 distributions.

Of the common distribution declared on December 15, 2014 and paid on January 15, 2015, $0.1692 was treated as a 2015 distribution for tax purposes. The preferred share distributions declared on December 15, 2014 and paid on January 15, 2015 were treated as 2014 distributions for tax purposes.

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

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

For the years ended December 31, 2016, 2015 and 2014, the Operating Partnership income tax expenses was $0.5 million, $0.9 million and $0.2 million, respectively.

The Company's TRS, PHL, is subject to federal and state corporate income taxes at statutory tax rates. The Company's provision (benefit) for income taxes for PHL consists of the following (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Federal			
Current	$ (27)	$ 1,389	$ 2,121
Deferred	(353)	55	317
State and local			
Current	93	287	555
Deferred	(171)	(72)	25
Income tax expense (benefit)	$ (458)	$ 1,659	$ 3,018

A reconciliation of the statutory federal tax expense (benefit) to the Company's income tax expense (benefit) for PHL is as follows (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Statutory federal tax expense (benefit)	$ (618)	$ 1,367	$ 2,561
State income tax expense (benefit), net of federal tax (benefit) expense	(110)	111	457
Other	270	181	—
Income tax expense (benefit)	$ (458)	$ 1,659	$ 3,018

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of December 31, 2016 and December 31, 2015, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2013 and 2012, respectively.

Note 10. Earnings Per Share

The following is a reconciliation of basic and diluted earnings per common share (in thousands, except share and per-share
data):

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	For the year ended December 31,		
	2016	2015	2014
Numerator:			
Net income (loss) attributable to common shareholders	$46,952	$ 68,718	$ 47,787
Less: dividends paid on unvested share-based compensation	(483)	(432)	(459)
Net income (loss) available to common shareholders	$46,469	$ 68,286	$ 47,328
Denominator:			
Weighted-average number of common shares — basic	71,901,499	71,715,870	65,646,712
Effect of dilutive share-based compensation	471,743	668,419	617,406
Weighted-average number of common shares — diluted	72,373,242	72,384,289	66,264,118
Net income (loss) per share available to common shareholders — basic	$0.65	$ 0.95	$ 0.72
Net income (loss) per share available to common shareholders — diluted	$0.64	$ 0.94	$ 0.71

For the years ended December 31, 2016, 2015 and 2014, 114,889, zero and zero respectively, of unvested service condition restricted shares and performance-based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. The LTIP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Management Agreements

The Company’s hotel properties are operated pursuant to management agreements with various management companies. The terms of these management agreements range from five years to 20 years, not including renewals, and five years to 52 years, including renewals. Many of the Company’s management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to five times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company’s management agreements are non-terminable except upon the manager’s breach of a material representation or the manager’s failure to meet performance thresholds as defined in the management agreement.

The management agreements require the payment of a base management fee generally between 2% and 4% of hotel revenues. Under certain management agreements, the management companies are also eligible to receive an incentive management fee if hotel operating income, cash flows or other performance measures, as defined in the agreements, exceed certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel. Combined base and incentive management fees were $24.2 million, $23.5 million and $19.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. Base and incentive management fees are included in other direct and indirect expenses in the Company's consolidated statements of operations and comprehensive income.

Reserve Funds

Certain of the Company’s agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, typically 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels’ furniture, fixtures and equipment.

Restricted Cash

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At December 31, 2016 and December 31, 2015, the Company had $7.4 million and $9.5 million, respectively, in restricted cash, which consisted of reserves for replacement of furniture and fixtures or reserves to pay for real estate taxes or property insurance under certain hotel management agreements or loan agreements. For purposes of the statement of cash flows, changes in restricted cash caused by changes in required reserves for real estate taxes or property insurance are shown as operating activities. Changes in restricted cash caused by changes in required reserves for furniture and fixtures replacement are shown as investing activities.

Ground and Hotel Leases

The Hotel Monaco Washington DC is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $0.2 million or a percentage of gross hotel revenues and gross food and beverage revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the hotel structure due to its status as a national historic landmark.

The Argonaut Hotel is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $1.3 million or a percentage of rooms revenues, food and beverage revenues and other department revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the structure due to its status as a national historic landmark.

The Hotel Zelos San Francisco is subject to a long-term hotel lease for the right to use the ground floor lobby area and floors five through nine of the building and underlying land. The hotel lease expires in 2097. The hotel is required to pay annual base rent and a percentage rent, which is based on gross hotel and gross food and beverage revenues in excess of certain thresholds, as defined in the lease agreement.

The Hotel Zephyr Fisherman's Wharf (formerly Radisson Hotel Fisherman's Wharf) is subject to both a long-term primary ground lease and a secondary sublease. Through 2016, the primary ground lease required the hotel to make annual base rental payments of $0.1 million and percentage rental payments based on 5% of room revenues and 7.5% of retail revenues attributed to guest rooms and retail space added to the hotel property in 1998. Beginning in 2017, the primary ground lease requires the hotel to pay percentage rent based on 6% of total room revenues and 7.5% of total retail and parking revenues. The primary ground lease expires in 2062. The secondary sublease required the hotel to make rental payments based on hotel net income, as defined in the agreement, related to the rooms and retail space in existence prior to the 1998 renovation. The secondary sublease expired in April 2016 at which time the hotel became subject to only the primary ground lease through its maturity in 2062.

The Hotel Zeppelin San Francisco (formerly Prescott Hotel) is subject to a long-term hotel lease for the right to use floors three through seven, the basement and the roof of an adjacent, attached building containing 64 of the 196 guest rooms at the property. The hotel lease expires in 2059, with a one-time extension option of 30 years. The Company is required to pay annual base rent of approximately $0.5 million, beginning in October 2017. The annual base rent is subject to a fixed increase every year during the remaining lease term. The building portion of the long-term hotel lease assumed was determined to be a capital lease.

The Hotel Palomar Los Angeles - Beverly Hills is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2107, including 19 five-year extension options. The hotel is required to pay annual base rent of approximately $3.8 million through January 2021 and the base rent will be adjusted for consumer price index ("CPI") increases at each five-year extension.

The Union Station Hotel Nashville, Autograph Collection is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2105. The hotel is required to pay the greater of annual base rent of $0.1 million or annual real property taxes.

The ground leases and the Hotel Zelos San Francisco hotel lease are considered operating leases. The Company records expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining terms of the leases. Ground rent expense was $12.1 million, $12.1 million and $8.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. Ground rent expense is included in real estate taxes, personal property taxes, property insurance and ground rent in the Company's consolidated statements of operations and comprehensive income.

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Future minimum annual rental payments including capital lease payments, assuming fixed rent for all periods and excludes percentage rent and CPI adjustments, is as follows as of December 31, 2016 (in thousands):

2017	$7,592
2018	8,010
2019	8,073
2020	8,139
2021	8,205
Thereafter	761,779
Total	$801,798

Litigation

The nature of the operations of hotels exposes the Company's hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. The Company has insurance to cover certain potential material losses. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company.

Note 12. Supplemental Information to Statements of Cash Flows

	For the year ended December 31,		
	2016	2015	2014
	(in thousands)		
Interest paid, net of capitalized interest	$41,416	$38,128	$26,945
Interest capitalized	$492	$598	$—
Income taxes paid	$369	$2,487	$3,049
Non-Cash Investing and Financing Activities:			
Distributions payable on common shares/units	$29,773	$24,319	$17,743
Distributions payable on preferred shares	$3,442	$5,550	$5,550
Issuance of common shares for Board of Trustees compensation	$606	$372	$421
Mortgage loans assumed in connection with acquisition	$—	$—	$50,725
Below (above) market rate contracts assumed in connection with acquisition	$—	$20,110	$15,375
Capital lease obligation assumed in connection with acquisition	$—	$—	$10,758
Accrued additions and improvements to hotel properties	$4,717	$1,262	$6,537
Write-off of fully depreciated furniture, fixtures and equipment	$—	$6,013	$4,446
Write-off of deferred financing costs	$1,836	$1,577	$2,258
In conjunction with the Manhattan Collection joint venture redemption transaction, the Company assumed the following assets and liabilities:			
Investment in hotel properties	$319,800	$—	$—
Mortgage loans	$190,000	$—	$—

For the year ended December 31, 2014, the Company redeemed 258,101 LTIP units for the same number of common shares. No LTIP units were redeemed for the years ended December 31, 2016 and 2015.

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Note 13. Subsequent Events

On February 15, 2017, the Board of Trustees granted awards of an aggregate of 58,539 service condition restricted common shares and 81,939 target performance-based equity to executive officers and employees of the Company. These awards will vest over 3 years. The actual number of common shares to be issued under the performance-based equity awards will be determined in early 2020 and will be based on certain performance criteria stipulated in the agreements for the period January 1, 2017 through December 31, 2019.

Note 14. Quarterly Operating Results (Unaudited)

The Company's unaudited consolidated quarterly operating data for the years ended December 31, 2016 and 2015 (in thousands, except per-share data) is below. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of quarterly results have been reflected in the data. It is also management's opinion, however, that quarterly operating data for hotel properties are not indicative of results to be achieved in succeeding quarters or years.

	Year Ended December 31, 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$196,245	$212,272	$208,963	$198,941
Net income (loss)	16,637	74,438	(35,535)	18,422
Net income (loss) attributable to the Company	16,579	74,190	(35,423)	18,358
Net income (loss) attributable to common shareholders	6,566	69,949	(43,897)	14,334
Net income (loss) per share available to common shareholders, basic	$0.09	$0.97	$(0.61)	$0.20
Net income (loss) per share available to common shareholders, diluted	$0.09	$0.96	$(0.61)	$0.20

	Year Ended December 31, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$163,435	$197,683	$216,321	$193,425
Net income (loss)	7,170	26,583	38,248	22,994
Net income (loss) attributable to the Company	7,143	26,491	38,119	22,915
Net income (loss) attributable to common shareholders	655	20,004	31,631	16,428
Net income (loss) per share available to common shareholders, basic	$0.01	$0.28	$0.44	$0.23
Net income (loss) per share available to common shareholders, diluted	$0.01	$0.27	$0.43	$0.23

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Pebblebrook Hotel Trust
Schedule III--Real Estate and Accumulated Depreciation
As of December 31, 2016
(In thousands)

		Initial Costs				Gross Amount at End of Year					
Description	Encumbrances	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Costs Capitalized Subsequent to Acquisition (1)	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Total	Accumulated Depreciation	Net Book Value	Year of Original Construc
Sir Francis Drake	$—	$22,500	$60,547	$6,953	$19,933	$22,500	$72,276	$15,157	$109,933	$24,715	$85,218	1928
InterContinental Buckhead Atlanta	—	25,000	68,844	11,000	12,510	25,000	74,469	17,885	117,354	26,939	90,415	2004
Hotel Monaco Washington DC	—	—	60,630	2,441	21,067	—	74,124	10,014	84,138	15,000	69,138	1839
The Grand Hotel Minneapolis	—	4,950	26,616	300	10,179	4,950	33,239	3,856	42,045	8,827	33,218	1912
Skamania Lodge	—	7,130	44,987	3,523	10,852	7,130	51,392	7,970	66,492	12,961	53,531	1993
Le Meridien Delfina Santa Monica	—	18,784	81,580	2,295	14,704	18,784	89,888	8,691	117,363	20,276	97,087	1972
Sofitel Philadelphia (2)	44,182	18,000	64,256	4,639	9,031	18,000	69,479	8,447	95,926	16,885	79,041	2000
Argonaut Hotel	—	—	79,492	4,247	6,820	—	82,976	7,583	90,559	17,919	72,640	1907
The Westin San Diego Gaslamp Quarter (3)	72,255	25,537	86,089	6,850	20,124	25,537	103,026	10,037	138,600	22,330	116,270	1987
Hotel Monaco Seattle	—	10,105	38,888	2,073	8,065	10,105	42,416	6,610	59,131	10,780	48,351	1969
Mondrian Los Angeles	—	20,306	110,283	6,091	10,690	20,306	115,575	11,489	147,370	24,083	123,287	1959
W Boston	—	19,453	63,893	5,887	9,784	19,453	69,156	10,408	99,017	16,438	82,579	2009
Hotel Zetta San Francisco	—	7,294	22,166	290	16,124	7,294	34,422	4,158	45,874	6,693	39,181	1913
Hotel Vintage Seattle	—	8,170	23,557	706	6,986	8,170	28,246	3,003	39,419	4,827	34,592	1922
Hotel Vintage Portland	—	6,222	23,012	1,093	12,267	6,222	32,170	4,202	42,594	5,251	37,343	1894
W Los Angeles - West Beverly Hills	—	24,403	93,203	3,600	25,762	24,403	111,359	11,206	146,968	18,347	128,621	1969
Hotel Zelos San Francisco (4)	25,718	7,—	63,430	3,780	7,949	—	68,884	6,275	75,159	12,363	62,796	1907

Embassy Suites San Diego Bay - Downtown	—20,103	90,162	6,881	13,234	20,103	100,831	9,446	130,380	15,725	114,655	1988
Hotel Modera	—8,215	37,874	1,500	3,374	8,215	40,081	2,667	50,963	5,364	45,599	1962
Hotel Zephyr Fisherman's Wharf	——	116,445	3,550	28,453	—	141,400	7,048	148,448	13,841	134,607	1964
Hotel Zeppelin San Francisco (formerly Prescott Hotel)	—12,561	43,665	1,094	35,200	12,561	74,215	5,744	92,520	5,523	86,997	1913

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Pebblebrook Hotel Trust
Schedule III--Real Estate and Accumulated Depreciation - Continued
As of December 31, 2016
(In thousands)

The Nines, a Luxury Collection Hotel, Portland	—	18,493	92,339	8,757	8,404	18,493	97,636	11,864	127,993	9,448	1
Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables)	—	12,108	46,317	1,271	18,246	12,108	57,388	8,446	77,942	5,094	7
Hotel Palomar Los Angeles - Beverly Hills	—	—	90,675	1,500	8,242	—	95,546	4,871	100,417	5,491	9
Union Station Hotel Nashville, Autograph Collection	—	—	37,803	6,833	17,940	—	51,008	11,568	62,576	4,792	5
Revere Hotel Boston Common	—	41,857	207,817	10,596	12,987	39,267	216,690	17,300	273,257	14,318	2
LaPlaya Beach Resort and LaPlaya Beach Club	—	112,575	82,117	6,733	8,441	112,575	88,503	8,788	209,866	8,133	2
The Tuscan	—	29,125	90,323	2,500	5,928	29,125	93,379	5,372	127,876	5,599	1
Fisherman's Wharf	—	33,270	77,330	300	59	33,270	77,330	359	110,959	523	1
Dumont NYC	$142,890	$506,161	$2,024,340	$117,283	$383,355	$503,571	$2,287,104	$240,464	$3,031,139	$358,485	$

(1) Disposals are reflected as reductions to cost capitalized subsequent to acquisition.
(2) Encumbrance on the Sofitel Philadelphia is presented at face value, which excludes deferred financing costs which were immaterial at December 31, 2016.
(3) Encumbrance on the The Westin San Diego Gaslamp Quarter is presented at face value, which excludes deferred financing costs of $0.2 million at December 31, 2016.
(4) Encumbrance on the Hotel Zelos San Francisco is presented at face value, which excludes loan premium and deferred financing costs of $0.4 million and $0.1 million, respectively, at December 31, 2016.

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Pebblebrook Hotel Trust
Schedule III--Real Estate and Accumulated Depreciation-Continued
As of December 31, 2016
(In thousands)

Reconciliation of Real Estate and Accumulated Depreciation:	
Reconciliation of Real Estate:	
Balance at December 31, 2013	$1,849,939
Acquisitions	633,687
Capital Expenditures	59,090
Disposal of Assets	(4,446)
Balance at December 31, 2014	$2,538,270
Acquisitions	323,373
Capital Expenditures	101,131
Disposal of Assets	(6,013)
Balance at December 31, 2015	$2,956,761
Acquisitions	319,800
Capital Expenditures	105,074
Disposal of Assets	(350,496)
Balance at December 31, 2016	$3,031,139
Reconciliation of Accumulated Depreciation:	
Balance at December 31, 2013	$132,328
Depreciation	66,698
Disposal of Assets	(4,446)
Balance at December 31, 2014	$194,580
Depreciation	94,610
Disposal of Assets	(6,013)
Balance at December 31, 2015	$283,177
Depreciation	101,060
Disposal of Assets	(25,752)
Balance at December 31, 2016	$358,485

The aggregate cost of properties for federal income tax purposes is approximately $3,136,614 thousand as of December 31, 2016.

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Declaration of Trust, as amended and supplemented, of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10 Q filed on July 25, 2016 (File No. 001 34571)).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on November 14, 2016 (File No. 001 34571)).
3.3	Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of December 13, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
3.4	First Amendment to the Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of September 30, 2014 (incorporated by reference to Exhibit 3.4 to the Registrant's Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571)).
3.5	Second Amendment to the Second Amended and Restated Agreement of Limited Partnership of Pebblebrook Hotel, L.P., dated as of June 8, 2016 (incorporated by reference to Exhibit 3.5 to the Registrant's Current Report on Form 8 K filed on June 8, 2016 (File No. 001 34571)).
10.1*	Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 2, 2012 (File No. 001-34571)).
10.2*	Amendment No. 1 to the Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012, effective July 7, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10 Q filed on July 25, 2016 (File No. 001 34571)).
10.3*	Amendment No. 2 to the Pebblebrook Hotel Trust 2009 Equity Incentive Plan, as amended and restated effective July 10, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2017 (File No. 001 34571)).
10.4*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Jon E. Bortz (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.5*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Raymond D. Martz (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.6*	Change in Control Severance Agreement between Pebblebrook Hotel Trust and Thomas C. Fisher (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)).
10.7*	Form of Indemnification Agreement between Pebblebrook Hotel Trust and its officers and trustees (incorporated by reference to Exhibit 10.4 of Amendment No. 1 to the Registrant's Registration Statement on Form S-11/A filed on November 10, 2009 (File No. 333-162412)).
10.8*	Form of Share Award Agreement for officers and employees (incorporated by reference to Exhibit 10.5 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412)) (This agreement was superseded by Exhibit 10.10 below).
10.9*	Form of Share Award Agreement for trustees (incorporated by reference to Exhibit 10.6 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412)).
10.10*	Form of Share Award Agreement (Performance Vesting) for executive officers (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No. 001-34571)).
10.11*	Form of LTIP Unit Vesting Agreement (supersedes Exhibits 10.11, 10.12, and 10.13 to the Registrant's Annual Report on Form 10-K filed on March 24, 2010 (File No. 001-34571)) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No.

	001-34571)).
10.12*	Form of Share Award Agreement for executive officers (supersedes Exhibit 10.5 of Amendment No. 2 to the Registrant's Registration Statement on Form S-11/A filed on November 25, 2009 (File No. 333-162412) and Exhibits 10.1, 10.2, and 10.3 to the Registrant's Current Report on Form 8-K filed on March 16, 2010 (File No. 001-34571)) (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on April 26, 2012 (File No. 001-34571)).
10.13	Lease, dated December 1, 1999, by and between the United States of America, acting through the Administrator of General Services, and Tariff Building Associates, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 13, 2010 (File No. 001-34571)).

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10.14	Assignment and Assumption of GSA Lease, dated September 9, 2010, by and among the United States of America, acting by and through the Administrator of General Services and Authorized Representatives, Tariff Building Associates, L.P., and Jayhawk Owner LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 13, 2010 (File No. 001-34571)).
10.15	Historical Lease, dated October 16, 2000, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.16	Seventh Amendment to Historic Lease, dated February 6, 2001, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.17	Tenth Amendment to Historic Lease, dated December 9, 2008, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Maritime Hotel Associates, L.P. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.18	Eleventh Amendment to Historic Lease, dated February 16, 2011, by and between the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an agency of the United States of America, and Wildcats Owner LLC. (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.19	Assignment and Assumption of Historical Lease, dated February 16, 2011, by and among the United States Department of the Interior, National Park Service acting through the Regional Director, Pacific West Region, an Agency of the United States of America, Maritime Hotel Associates, L.P., and Wildcats Owner LLC. (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on February 22, 2011 (File No. 001-34571)).
10.20*	Form of LTIP Class B Unit Vesting Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
10.21*	Form of Performance Unit Retention Award Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 17, 2013 (File No. 001-34571)).
10.22*	Form of Performance Unit Award Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 10, 2014 (File No. 001-34571)).
10.23	Agreement of Purchase and Sale, dated as of October 7, 2014, by and among NWBR LLC, and Stuart Street Development LLC, collectively, as Seller and NKOTB Owner LLC, as Buyer (incorporated by reference to Exhibit 10.31 to the Registrant’s Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571)).
10.24	Third Amended and Restated Credit Agreement, dated as of October 16, 2014, among Pebblebrook Hotel, L.P., as the Borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the Borrower, as guarantors, Bank of America, N.A., as administrative agent, swing line lender and L/C issuer, and the other lenders party thereto (incorporated by reference to Exhibit 10.33 to the Registrant’s Annual Report on Form 10 K filed on February 17, 2015 (File No. 001 34571).
10.25	First Amendment to Third Amended and Restated Credit Agreement, dated as of April 13, 2015, among Pebblebrook Hotel, L.P., as borrower, Pebblebrook Hotel Trust, as a guarantor, Bank of America, N.A., certain guarantors and certain lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).
10.26	Credit Agreement, dated as of April 13, 2015, among Pebblebrook Hotel, L.P., as the borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, U.S. Bank National Association, as administrative agent, and the other lenders party hereto (incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).

10.27	Credit Agreement, dated as of June 10, 2015, among Pebblebrook Hotel, L.P., as the borrower, Pebblebrook Hotel Trust, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, PNC Bank, National Association, as administrative agent, and the other lenders party hereto (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on July 23, 2015 (File No. 001-34571)).
10.28*	Form of Performance Unit Award Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 23, 2015 (File No. 001-34571)).

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10.29	Note Purchase and Guarantee Agreement, dated November 12, 2015, by and among Pebblebrook Hotel Trust, Pebblebrook Hotel, L.P, Massachusetts Mutual Life Insurance Company, MassMutual Asia Limited, Allianz Life Insurance Company of North America and The Guardian Life Insurance Company of America.
10.30	Loan Agreement, dated as of October 18, 2016, between 371 Seventh Avenue Co., LLC and Bank of America, N.A. (incorporated by reference to Exhibit 3.5 to the Registrant's Current Report on Form 8 K filed on October 21, 2016 (File No. 001 34571)).
12.1†	Statement of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends.
21.1†	List of Subsidiaries of the Registrant.
23.1†	Consent of KPMG LLP.
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document (1)
101.SCH XBRL	Taxonomy Extension Schema Document (1)
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document (1)
101.LAB XBRL	Taxonomy Extension Label Linkbase Document (1)
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document (1)
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document (1)

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* Management agreement or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

(1) Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.