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Xenia Hotels & Resorts, Inc.
Form 10-Q
November 07, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period ended _____ to _____

Commission file number 001-36594

Xenia Hotels & Resorts, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland 20-0141677
(State of Incorporation) (I.R.S. Employer Identification No.)

200 S. Orange Avenue 32801
Suite 2700, Orlando, Florida
(Address of Principal Executive Offices) (Zip Code)
(407) 246-8100

(Registrant's telephone number, including area code)

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 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.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(Do not check if a 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

As of November 4, 2016, there were 106,892,788 shares of the registrant's common stock outstanding.

XENIA HOTELS & RESORTS, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

XENIA HOTELS & RESORTS, INC.

Condensed Consolidated Balance Sheets

As of September 30, 2016 and December 31, 2015

(Dollar amounts in thousands, except per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investment properties:		
Land	\$ 343,000	\$ 343,000
Building and other improvements	2,830,089	2,680,591
Construction in progress	—	169
Total	\$ 3,173,089	\$ 3,023,760
Less: accumulated depreciation	(630,282)	(518,961)
Net investment properties	\$ 2,542,807	\$ 2,504,799
Cash and cash equivalents	185,311	122,154
Restricted cash and escrows	85,582	73,021
Accounts and rents receivable, net of allowance of \$259 and \$243, respectively	33,587	23,529
Intangible assets, net of accumulated amortization of \$19,259 and \$16,660, respectively	77,346	58,059
Deferred tax asset	1,726	2,304
Other assets	20,449	40,683
Assets held for sale	—	181,396
Total assets (including \$76,760 and \$77,140, respectively, related to consolidated variable interest entities)	\$ 2,946,808	\$ 3,005,945
Liabilities		
Debt, net of loan discounts, premiums and unamortized deferred financing costs	\$ 1,169,128	\$ 1,094,536
Accounts payable and accrued expenses	81,696	83,211
Distributions payable	30,121	25,684
Other liabilities	42,986	27,510
Liabilities associated with assets held for sale	—	31,646
Total liabilities (including \$48,409 and \$48,582, respectively, related to consolidated variable interest entities)	1,323,931	1,262,587
Commitments and contingencies		
Stockholders' equity		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 107,295,503 and 111,671,372 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	1,073	1,117
Additional paid in capital	1,932,360	1,993,760
Accumulated other comprehensive (loss) income	(9,721)	1,543
Distributions in excess of retained earnings	(321,292)	(268,991)
Total Company stockholders' equity	\$ 1,602,420	\$ 1,727,429
Non-controlling interests	20,457	15,929
Total equity	\$ 1,622,877	\$ 1,743,358
Total liabilities and equity	\$ 2,946,808	\$ 3,005,945
See accompanying notes to the combined condensed consolidated financial statements.		

XENIA HOTELS & RESORTS, INC.

Combined Condensed Consolidated Statements of Operations and Comprehensive Income

For the Three and Nine Months Ended September 30, 2016 and 2015

(unaudited)

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rooms revenues	\$167,066	\$175,872	\$507,361	\$501,754
Food and beverage revenues	55,687	58,500	185,484	185,707
Other revenues	11,193	14,081	37,515	40,089
Total revenues	\$233,946	\$248,453	\$730,360	\$727,550
Expenses:				
Rooms expenses	36,854	38,841	111,812	111,378
Food and beverage expenses	38,233	41,308	122,475	122,806
Other direct expenses	1,520	4,625	9,571	13,256
Other indirect expenses	55,076	58,311	170,957	167,758
Management and franchise fees	11,459	12,605	37,486	37,674
Total hotel operating expenses	\$143,142	\$155,690	\$452,301	\$452,872
Depreciation and amortization	37,796	37,818	115,066	110,094
Real estate taxes, personal property taxes and insurance	12,300	12,985	34,875	36,984
Ground lease expense	1,356	1,272	4,112	3,869
General and administrative expenses	7,211	5,396	25,508	19,443
Acquisition transaction costs	2	4,510	147	5,396
Pre-opening expenses	—	825	—	825
Provision for asset impairment	15	—	10,006	—
Separation and other start-up related expenses	—	426	—	26,887
Total expenses	\$201,822	\$218,922	\$642,015	\$656,370
Operating income	\$32,124	\$29,531	\$88,345	\$71,180
Gain (loss) on sale of investment properties	(1)	—	792	—
Other income	738	672	916	3,389
Interest expense	(12,373)	(12,496)	(38,014)	(38,726)
Loss on extinguishment of debt	(244)	—	(5,023)	(283)
Net income before income taxes	\$20,244	\$17,707	\$47,016	\$35,560
Income tax (expense) benefit	187	140	(9,613)	(8,344)
Net income from continuing operations	\$20,431	\$17,847	\$37,403	\$27,216
Net loss from discontinued operations	—	—	—	(489)
Net income	\$20,431	\$17,847	\$37,403	\$26,727
Non-controlling interests in consolidated real estate entities (Note 5)	84	255	205	255
Non-controlling interests of common units in Operating Partnership (Note 1)	(273)	(4)	(512)	(7)
Net (income) loss attributable to non-controlling interests	\$(189)	\$251	\$(307)	\$248
Net income attributable to the Company	\$20,242	\$18,098	\$37,096	\$26,975
Distributions to preferred stockholders	—	(4)	—	(12)
Net income attributable to common stockholders	\$20,242	\$18,094	\$37,096	\$26,963

XENIA HOTELS & RESORTS, INC.

Combined Condensed Consolidated Statements of Operations and Comprehensive Income, Continued

For the Three and Nine Months Ended September 30, 2016 and 2015

(unaudited)

(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic and diluted earnings per share				
Income from continuing operations available to common stockholders	\$0.19	\$ 0.16	\$0.34	\$ 0.24
Income from discontinued operations available to common stockholders	—	—	—	—
Net income per share available to common stockholders	\$0.19	\$ 0.16	\$0.34	\$ 0.24
Weighted average number of common shares (basic)	107,538,601	111,694,773	108,384,241	112,096,957
Weighted average number of common shares (diluted)	107,677,749	111,885,350	108,495,365	112,258,505
Comprehensive Income:				
Net income	\$20,431	\$ 17,847	\$37,403	\$ 26,727
Other comprehensive income:				
Unrealized gain (loss) on interest rate derivative instruments	1,362	—	(14,283)	—
Reclassification adjustment for amounts recognized in net income (interest expense)	972	—	2,869	—
	\$22,765	\$ 17,847	\$25,989	\$ 26,727
Comprehensive income attributable to non-controlling interests:				
Non-controlling interests in consolidated real estate entities (Note 5)	84	255	205	255
Non-controlling interests of common units in Operating Partnership (Note 1)	(303)	(4)	(362)	(7)
Comprehensive income attributable to non-controlling interests	(219)	251	(157)	248
Comprehensive income attributable to the Company	\$22,546	\$ 18,098	\$25,832	\$ 26,975

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.

Condensed Consolidated Statements of Changes in Equity

For the Nine Months Ended September 30, 2016

(unaudited)

(Dollar amounts in thousands, except per share data)

	Common Stock			Accumulated other comprehensive income (loss)	Non-controlling Interests				
	Shares	Amount	Additional paid in capital		Distributions in excess of retained earnings	Operating Partnership	Consolidated Real Estate Entities	Total Non-controlling Interests	Total
Balance at January 1, 2016	111,671,372	\$1,117	\$1,993,760	\$1,543	\$(268,991)	\$2,593	\$13,336	\$15,929	\$1,743,358
Net income (loss)	—	—	—	—	37,096	512	(205)	307	37,403
Repurchase of common shares, net	(4,466,048)	(45)	(66,216)	—	—	—	—	—	(66,261)
Dividends, common shares / units (\$0.825)	—	—	—	—	(89,397)	(273)	—	(273)	(89,670)
Share-based compensation	90,179	1	4,816	—	—	4,303	—	4,303	9,120
Other comprehensive income (loss):									
Unrealized loss on interest rate derivative instruments	—	—	—	(14,096)	—	(187)	—	(187)	(14,283)
Reclassification adjustment for amounts recognized in net income	—	—	—	2,832	—	37	—	37	2,869
Contributions from non-controlling interests	—	—	—	—	—	—	341	341	341
Balance at September 30, 2016	107,295,503	\$1,073	\$1,932,360	\$(9,721)	\$(321,292)	\$6,985	\$13,472	\$20,457	\$1,622,877

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.

Combined Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2016 and 2015

(unaudited)

(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$37,403	\$26,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	112,897	107,427
Amortization of above and below market leases and other lease intangibles	2,547	2,769
Amortization of debt premiums, discounts, and financing costs	3,009	2,872
Loss on extinguishment of debt	5,023	283
Gain on sale of investment property, net	(792)) —
Provision for asset impairment	10,006	—
Share-based compensation expense	7,049	4,774
Other non-cash adjustments	—	36
Prepayment penalties and defeasance	(4,813)) —
Changes in assets and liabilities:		
Restricted cash	256	—
Accounts and rents receivable	(8,814)) (9,088)
Deferred costs and other assets	4,858	8,208
Accounts payable and accrued expenses	1,236	2,909
Other liabilities	2,708	(5,227)
Net cash flows provided by operating activities	\$172,573	\$141,690
Cash flows used in investing activities:		
Purchase of investment properties	(116,000)) (245,000)
Capital expenditures and tenant improvements	(38,091)) (40,941)
Investment in development projects	—	(30,842)
Proceeds from sale of investment properties	161,129	—
Restricted cash and escrows	(9,277)) 4,155
Deposits for acquisition of hotel properties	—	(20,000)
Other assets	—	1,039
Net cash flows used in investing activities	\$(2,239)) \$(331,589)
Cash flows used in financing activities:		
Distribution to InvenTrust Properties Corp.	—	(23,505)
Contribution from InvenTrust Properties Corp.	—	176,805
Proceeds from mortgage debt and notes payable	71,258	19,628
Payoffs of mortgage debt	(147,042)) (81,468)
Principal payments of mortgage debt	(4,377)) (6,707)
Proceeds from unsecured term loan	125,000	—
Payment of loan fees and deposits	(646)) (2,926)
Proceeds from revolving line of credit draws	—	127,000
Payments on revolving line of credit	—	(10,000)
Contributions from non-controlling interests	341	6,633
Proceeds from issuance of preferred shares, net of offering costs	—	102
Redemption of preferred shares	—	(137)
Repurchase of common shares	(66,261)) (36,946)

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Dividends, common shares/units	(85,271)	(42,191)
Dividends, preferred shares	—	(12)
Distributions paid to non-controlling interests	(179)	—
Net cash flows (used in) provided by financing activities	\$(107,177)	\$126,276
Net increase (decrease) in cash and cash equivalents	63,157	(63,623)
Cash and cash equivalents, at beginning of year	122,154	163,053
Cash and cash equivalents, at September 30, 2016 and 2015	\$185,311	\$99,430
See accompanying notes to the combined condensed consolidated financial statements.		

XENIA HOTELS & RESORTS, INC.

Combined Condensed Consolidated Statements of Cash Flows - Continued

For the Nine Months Ended September 30, 2016 and 2015

(unaudited)

(Dollar amounts in thousands)

	Nine Months Ended September 30, 2016 2015	
Supplemental disclosure of cash flow information:		
Cash paid for taxes	\$6,650	\$359
Cash paid for interest	31,027	35,383
Supplemental schedule of non-cash investing and financing activities:		
Accrued capital expenditures	\$1,246	\$4,005
Assumption of unsecured line of credit facility by InvenTrust Properties Corp.	—	(96,020)
Non-cash net distributions to InvenTrust Properties Corp.	—	282
Deposit applied to purchase price of hotel property upon acquisition	20,000	—
See accompanying notes to the combined condensed consolidated financial statements.		

XENIA HOTELS & RESORTS, INC.

Notes to Combined Condensed Consolidated Financial Statements (unaudited)

September 30, 2016

1. Organization

Xenia Hotels & Resorts, Inc. (the "Company" or "Xenia") is a Maryland corporation that invests primarily in premium full service, lifestyle and urban upscale hotels. Prior to February 3, 2015, Xenia was a wholly owned subsidiary of InvenTrust Properties Corp. ("InvenTrust" formerly known as Inland American Real Estate Trust, Inc.), its former parent.

On February 3, 2015, Xenia was spun off from InvenTrust through a taxable pro rata distribution by InvenTrust of 95% of the outstanding common stock, \$0.01 par value per share (the "Common Stock"), of Xenia to holders of record of InvenTrust's common stock as of the close of business on January 20, 2015 (the "Record Date"). Each holder of record of InvenTrust's common stock received one share of Common Stock for every eight shares of InvenTrust's common stock held at the close of business on the Record Date (the "Distribution"). In lieu of fractional shares, stockholders of InvenTrust received cash. On February 4, 2015, Xenia's Common Stock began trading on the New York Stock Exchange ("NYSE") under the ticker symbol "XHR." As a result of the Distribution, the Company became a stand-alone, publicly-traded company. Xenia operates as a real estate investment trust ("REIT") for federal income tax purposes.

Substantially all of the Company's assets are held by, and all the operations are conducted through XHR LP (the "Operating Partnership"). XHR GP, Inc. is the sole general partner of XHR LP. XHR GP, Inc. is wholly owned by the Company. As of September 30, 2016, the Company owned 98.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 1.3% of the common units are owned by the other limited partners. To qualify as a REIT, the Company cannot operate or manage its hotels. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to XHR Holding Inc. (collectively with its subsidiaries, "XHR Holding"), the Company's taxable REIT subsidiary ("TRS"), which engages third-party eligible independent contractors to manage the hotels.

The accompanying combined condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, XHR Holding, as well as all wholly owned subsidiaries and consolidated investments in real estate entities. The Company's subsidiaries and consolidated investments in real estate entities generally consist of limited liability companies ("LLCs"), limited partnerships ("LPs") and the TRS. The effects of all inter-company transactions have been eliminated.

As of September 30, 2016, the Company owned 46 lodging properties, 44 of which were wholly owned, with a total of 11,594 rooms. The remaining two hotels are owned through individual investments in real estate entities, in which the Company has a 75% ownership interest in each investment.

2. Summary of Significant Accounting Policies

The unaudited interim combined condensed consolidated financial statements and related notes have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. The unaudited financial statements include normal recurring adjustments, which management considers necessary for the fair presentation of the condensed consolidated balance sheets, combined condensed consolidated statements of operations and comprehensive income, condensed consolidated statements of changes in equity and combined condensed consolidated statements of cash flows for the periods presented. The unaudited combined condensed consolidated financial statements should be read in conjunction with the combined consolidated financial statements and notes thereto as of and for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2016. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of actual operating results for the entire year.

Basis of Presentation

As described above, on February 3, 2015, Xenia was spun off from InvenTrust. Prior to the separation, the Company effectuated certain reorganization transactions which were designed to consolidate the ownership of its hotels into its Operating Partnership, consolidate its TRS lessees in its TRS, facilitate its separation from InvenTrust, and enable the Company to qualify as a REIT for federal income tax purposes. The accompanying combined condensed consolidated financial statements prior to the spin-off have been "carved out" of InvenTrust's consolidated financial statements and reflect significant assumptions and allocations. The combined condensed consolidated financial statements reflect the operations of the Company after giving effect to the reorganization transactions, the disposition of other hotels previously owned by the Company, and the spin-off, and include allocations of costs from certain corporate and shared functions provided to the Company by InvenTrust, as well as

XENIA HOTELS & RESORTS, INC.

Notes to Combined Condensed Consolidated Financial Statements (unaudited)

September 30, 2016

costs associated with participation by certain of the Company's executives in InvenTrust's benefit plans. Corporate costs directly associated with the Company's principal executive offices, personnel and other administrative costs are reflected as general and administrative expenses on the combined condensed consolidated statements of operations and comprehensive income. Additionally, prior to the spin-off, InvenTrust allocated to the Company a portion of its corporate overhead costs based upon the Company's percentage share of the average invested assets of InvenTrust, which is reflected in general and administrative expenses. Based on these presentation matters, the financial statements for the three and nine months ended September 30, 2015 may not be comparable.

As InvenTrust was managing various asset portfolios, the extent of services and benefits a portfolio received was based on the size of its assets. Therefore, using average invested assets to allocate costs was a reasonable reflection of the services and other benefits received by the Company and complied with applicable accounting guidance. However, actual costs may have differed from allocated costs if the Company had operated as a stand-alone entity during such period and those differences may have been material.

Each property maintains its own books and financial records and each entity's assets are not available to satisfy the liabilities of other affiliated entities, except as otherwise disclosed in Note 7.

Use of Estimates

The preparation of the combined condensed consolidated 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 economic conditions. Actual results could differ from these estimates.

Consolidation

The Company evaluates its investments in partially owned entities to determine whether such entities may be a variable interest entity ("VIE"). If the entity is a VIE, the determination of whether the Company is the primary beneficiary must be made. The primary beneficiary determination is based on a qualitative assessment as to whether the entity has (i) power to direct significant activities of the VIE and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company will consolidate a VIE if it is deemed to be the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in FASB ASC 810, or the entity is not a VIE and the Company does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

On January 1, 2016, the Company adopted Accounting Standards Update ("ASU") 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"), which amended the consolidation guidance for VIE's and general partner's investments in limited partnerships and modifies the evaluation of whether limited partnership and similar legal entities are VIEs or voting interest entities. Upon adoption of ASU 2015-02, the Company concluded there was no change required in the accounting of its two previously identified VIEs in our two investments in real estate entities and therefore will continue to consolidate these VIEs for reporting purposes, as further described in Note 5. However, the Company concluded that the Operating Partnership now meets the criteria as a VIE under ASU 2015-02. The Company's significant asset is its investment in the Operating Partnership, as described in Note 1, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. As such, there is no change in the presentation of the consolidated financial statements of the Company upon adoption of ASU 2015-02.

Impairment

The Company assesses the carrying values of the respective long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable, such as a reduction in the expected holding period of the asset or a change in demand for lodging at the Company's hotels. If it is determined

that the carrying value is not recoverable because the undiscounted cash flows do not exceed carrying value, the Company records an impairment loss to the extent that the carrying value exceeds fair value. The valuation and possible subsequent impairment of investment properties is a significant estimate that can and does change based on the Company's continuous process of analyzing each property and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the property at a particular point in time.

XENIA HOTELS & RESORTS, INC.

Notes to Combined Condensed Consolidated Financial Statements (unaudited)

September 30, 2016

The use of projected future cash flows and related holding period is based on assumptions that are consistent with the estimates of future expectations and the strategic plan the Company uses to manage its underlying business. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company's ultimate investment intent that occur subsequent to the impairment analyses could impact these assumptions and result in future impairment charges of the real estate properties.

Investment Properties Held for Sale

In determining whether to classify an investment property as held for sale, the Company considers whether:

(i) management has committed to a plan to sell the investment property; (ii) the investment property is available for immediate sale, in its present condition; (iii) the Company is actively marketing the investment property for sale at a price that is reasonable in relation to its fair value; (iv) the Company has initiated a program to locate a buyer; (v) the Company believes that the sale of the investment property is probable; (vi) the Company has received a significant non-refundable deposit for the purchase of the property; (vii) actions required for the Company to complete the plan indicate that it is unlikely that any significant changes will be made to the plan.

If all of the above criteria are met, the Company classifies the investment property as held for sale. On the day that these criteria are met, the Company suspends depreciation and amortization on the investment properties held for sale. The investment properties and liabilities associated with those investment properties that are held for sale are classified separately on the condensed consolidated balance sheets for the most recent reporting period and all comparative periods, and are presented at the lesser of the carrying value or fair value, less costs to sell. Additionally, if the sale constitutes a strategic shift with a major effect on operations, the operations for the investment properties held for sale are classified on the combined condensed consolidated statements of operations and comprehensive income as discontinued operations for all periods presented.

Share-Based Compensation

The Company has adopted a share-based incentive plan that provides for the grant of stock options, stock awards, restricted stock units, Operating Partnership units and other equity-based awards. Share-based compensation is measured at the estimated fair value of the award on the date of grant, adjusted for forfeitures, and recognized as an expense on a straight-line basis over the longest vesting period for each grant for the entire award. 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 certain of these awards will achieve parity with other Operating Partnership units or achieve performance thresholds. Share-based compensation is included in general and administrative expenses in the accompanying combined condensed consolidated statements of operations and comprehensive income and capitalized in building and other improvements in the condensed consolidated balance sheets for certain employees that manage property developments, renovations and capital improvements.

Recently Issued Accounting Pronouncements

In May 2014, 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. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective, although it will not affect the accounting for rental related revenues. The new standard is effective for the Company on January 1, 2018, pursuant to ASU No. 2015-09 which deferred the adoption date by one year. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 and related updates will have on its consolidated financial statements and related disclosures. Although the Company is still evaluating the revenue streams and the timing of recognition under the new model, it is not expected to change significantly from current policies. Additionally, the Company has begun evaluating the sale of non-financial assets to entities that are not customers, such as the disposition of real estate assets. Historically, hotel dispositions have been cash sales that required no contingencies for

future involvement in the hotel's operations and therefore the Company does not expect ASU No. 2014-09 to have a material impact on its recognition of hotel sales. The Company has not yet selected a transition method. In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update was effective for interim and annual periods beginning after

XENIA HOTELS & RESORTS, INC.

Notes to Combined Condensed Consolidated Financial Statements (unaudited)

September 30, 2016

December 15, 2015, with early adoption permitted. The implementation of ASU 2015-16 on January 1, 2016 had no material impact on the Company's combined condensed consolidated financial statements.

In November 2015, the FASB issued ASU 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 noncurrent on the balance sheet. The new standard is effective for the Company on January 1, 2017. Early adoption is permitted. The Company does not expect ASU No. 2015-17 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which replaces ASC Topic 840, Leases, and requires most lessee leases to be recorded on the Company's balance sheet as either operating or financing leases with a right of use asset with a corresponding lease liability measured at present value. Operating leases will be recognized on the income statement on a straight-line basis as lease expense and financing leases will be accounted for similar to the accounting for amortizing debt. Leases with terms of less than 12 months will continue to be accounted for as they are under the current standard. The new standard is effective for the Company on January 1, 2019, with early adoption permitted. The Company is evaluating the effect that ASU 2016-02 will have on its combined condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 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 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 does not expect ASU No. 2016-09 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which changes the way certain cash receipts and cash payments are presented and classified on the statement of cash flows in order to reduce diversity in practice across all industries. The standard clarifies classification for debt prepayment or debt extinguishment costs, proceeds from the settlement of insurance claims, and contingent consideration payments made after business combination among other things. The new standard is effective for the Company on January 1, 2018, however, early adoption is permitted. The Company does not expect ASU No. 2016-15 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

3. Acquired Properties

In June 2015, the Company entered into a purchase agreement to acquire a portfolio of three hotels: the RiverPlace Hotel in Portland, Oregon, the Canary hotel in Santa Barbara, California, and the Hotel Palomar in Philadelphia, Pennsylvania (the "Kimpton Portfolio") for a total purchase price of \$245 million, excluding closing costs, which were expensed and included in acquisition costs on the combined condensed consolidated statement of operations for the three and nine months ended September 30, 2015. These acquisitions closed in July 2015, and were funded with cash and borrowings under the Company's unsecured credit facility.

The following is a summary of the hotel acquisitions for the nine months ended September 30, 2015:

Property	Location	Rooms	Management Company
Canary Santa Barbara	Santa Barbara, CA	97	Kimpton Hotel & Restaurant Group, LLC
Hotel Palomar Philadelphia	Philadelphia, PA	230	Kimpton Hotel & Restaurant Group, LLC
RiverPlace Hotel	Portland, OR	84	Kimpton Hotel & Restaurant Group, LLC

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The Company records identifiable assets, liabilities, and goodwill acquired in a business combination at fair value using significant other observable inputs (Level 2) including available market information and appropriate valuation methodologies available. The following reflects the purchase price allocation for the three hotels acquired during the nine months ended September 30, 2015 (in thousands):

Land	\$49,743
Building and improvements	172,928
Furniture, fixtures, and equipment	21,907
Intangibles and other assets	422
Total purchase price	\$245,000

For the three hotels acquired during the nine months ended September 30, 2015, total revenues and net income from the date of acquisition in July 2015 through September 30, 2015 are included in the accompanying combined condensed consolidated statements of operations for the three and nine months ended (in thousands):

	September 30, 2015
Revenue	\$ 11,421
Net income (excluding acquisition costs)	\$ 3,146

In January 2016, the Company acquired the Hotel Commonwealth located in Boston, Massachusetts for a purchase price of \$136 million, excluding closing costs, which were expensed and included in acquisition costs on the combined condensed consolidated statement of operations for the nine months ended September 30, 2016. The source of funding was proceeds from the \$125 million term loan entered into by the Company, as further described in Note 7, and a \$20 million escrow deposit applied to the purchase price at closing. The hotel has a total of 245-rooms, which includes a 96-room hotel expansion that was completed in December 2015. The Hotel Commonwealth is subject to a long-term ground lease, which expires in 2087, and was assumed by the Company as part of the hotel's acquisition. The following reflects the purchase price allocation for the hotel acquired during the nine months ended September 30, 2016 (in thousands):

Building and improvements	\$103,847
Furniture, fixtures, and equipment	10,238
Intangibles and other assets ⁽¹⁾	21,915
Total purchase price	\$136,000

As part of the purchase price allocation, the Company allocated \$21.7 million to a below market lease intangible (1) that will be amortized on a straight-line basis over the remaining term of the underlying ground lease, which expires in 2087.

The total revenues and net income for Hotel Commonwealth, from the date of acquisition in January 2016 through September 30, 2016, are included in the accompanying combined condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Revenue	\$ 8,262	\$ 19,857
Net income (excluding acquisition costs)	\$ 2,327	\$ 3,694

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The following unaudited condensed pro forma financial information presents the results of operations as if the 2016 and 2015 acquisitions had taken place on January 1, 2015. The unaudited pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the 2016 and 2015 acquisitions had taken place on January 1, 2015, nor does it purport to represent the results of operations for future periods. The unaudited condensed proforma financial information is as follows (in thousands, except per share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$233,946	\$267,448	\$730,653	\$777,930
Net income	\$20,431	\$20,314	\$37,405	\$26,257
Net income per share attributable to common stock - basic				