

LaSalle Hotel Properties
Form 10-Q
October 19, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2017

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 1-14045

LASALLE HOTEL PROPERTIES
(Exact name of registrant as specified in its charter)

Maryland 36-4219376
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

7550 Wisconsin Avenue, 10th Floor 20814
Bethesda, Maryland
(Address of principal executive offices) (Zip Code)
(301) 941-1500
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common and preferred shares as of the latest practicable date.

Class	Outstanding at October 19, 2017
Common Shares of Beneficial Interest (\$0.01 par value)	113,231,780
6.375% Series I Cumulative Redeemable Preferred Shares (\$0.01 par value)	4,400,000
6.3% Series J Cumulative Redeemable Preferred Shares (\$0.01 par value)	6,000,000

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PART I. Financial Information

Item 1. Financial Statements

LASALLE HOTEL PROPERTIES

Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2017	December 31, 2016
	(unaudited)	
Assets:		
Investment in hotel properties, net (Note 3)	\$ 3,271,918	\$ 3,672,209
Property under development	41,639	21,078
Assets held for sale (Note 3)	0	23,283
Cash and cash equivalents	444,285	134,652
Restricted cash reserves (Note 5)	14,654	15,035
Hotel receivables (net of allowance for doubtful accounts of \$397 and \$279, respectively)	43,495	35,403
Debt issuance costs for borrowings under credit facilities, net	3,547	1,699
Deferred tax assets	1,730	1,902
Prepaid expenses and other assets	49,285	38,818
Total assets	\$ 3,870,553	\$ 3,944,079
Liabilities:		
Borrowings under credit facilities (Note 4)	\$ 0	\$ 0
Term loans, net of unamortized debt issuance costs (Note 4)	853,049	852,758
Bonds payable, net of unamortized debt issuance costs (Note 4)	42,484	42,455
Mortgage loan, net of unamortized debt issuance costs (Note 4)	224,200	223,494
Accounts payable and accrued expenses	153,620	171,965
Liabilities of assets held for sale (Note 3)	0	247
Advance deposits	31,684	33,232
Accrued interest	2,219	2,209
Distributions payable	55,135	56,360
Total liabilities	1,362,391	1,382,720
Commitments and contingencies (Note 5)		
Equity:		
Shareholders' Equity:		
Preferred shares of beneficial interest, \$0.01 par value (liquidation preference of \$260,000 and \$328,750, respectively), 40,000,000 shares authorized; 10,400,000 and 13,150,000 shares issued and outstanding, respectively (Note 6)	104	132
Common shares of beneficial interest, \$0.01 par value, 200,000,000 shares authorized; 113,251,427 shares issued and 113,231,780 shares outstanding, respectively, and 113,115,442 shares issued and 113,088,074 shares outstanding, respectively (Note 6)	1,132	1,131
Treasury shares, at cost (Note 6)	(553	) (739
Additional paid-in capital, net of offering costs of \$82,842 and \$85,223, respectively	2,766,385	2,830,740

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Accumulated other comprehensive income (Note 4)	4,358	2,365
Distributions in excess of retained earnings	(266,607)	(275,564)
Total shareholders' equity	2,504,819	2,558,065
Noncontrolling Interests:		
Noncontrolling interests in consolidated entities	17	17
Noncontrolling interests of common units in Operating Partnership (Note 6)	3,326	3,277
Total noncontrolling interests	3,343	3,294
Total equity	2,508,162	2,561,359
Total liabilities and equity	\$ 3,870,553	\$ 3,944,079

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

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Hotel operating revenues:				
Room	\$209,019	\$237,757	\$609,769	\$664,463
Food and beverage	50,191	61,718	161,803	197,090
Other operating department	24,243	25,892	66,728	70,992
Total hotel operating revenues	283,453	325,367	838,300	932,545
Other income	2,403	1,569	9,005	5,582
Total revenues	285,856	326,936	847,305	938,127
Expenses:				
Hotel operating expenses:				
Room	55,474	59,342	163,068	170,596
Food and beverage	37,628	44,307	116,908	137,209
Other direct	2,793	4,562	9,631	13,218
Other indirect (Note 8)	69,207	78,734	212,040	230,932
Total hotel operating expenses	165,102	186,945	501,647	551,955
Depreciation and amortization	43,355	48,022	134,684	144,491
Real estate taxes, personal property taxes and insurance	16,663	13,913	46,867	47,023
Ground rent (Note 5)	4,788	4,570	11,996	12,491
General and administrative	6,475	6,076	19,946	19,549
Other expenses	3,179	1,007	6,656	5,512
Total operating expenses	239,562	260,533	721,796	781,021
Operating income	46,294	66,403	125,509	157,106
Interest income	951	167	1,408	3,497
Interest expense	(10,026)	(10,332)	(29,276)	(33,681)
Loss from extinguishment of debt (Note 4)	0	0	(1,706)	0
Income before income tax expense	37,219	56,238	95,935	126,922
Income tax expense (Note 9)	(1,978)	(3,109)	(2,208)	(5,099)
Income before net gain on sale of properties and sale of note receivable	35,241	53,129	93,727	121,823
Net gain on sale of properties and sale of note receivable (Note 3)	31	104,549	85,545	104,549
Net income	35,272	157,678	179,272	226,372
Net income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(49)	(203)	(242)	(299)
Net income attributable to noncontrolling interests	(49)	(203)	(250)	(307)

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Net income attributable to the Company	35,223	157,475	179,022	226,065
Distributions to preferred shareholders	(4,116)	(5,405)	(13,908)	(12,802)
Issuance costs of redeemed preferred shares (Note 6)	0	0	(2,401)	0
Net income attributable to common shareholders	\$31,107	\$152,070	\$162,713	\$213,263

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income - Continued

(in thousands, except share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Earnings per Common Share - Basic (Note 11):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.27	\$ 1.34	\$1.44	\$ 1.89
Earnings per Common Share - Diluted (Note 11):				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.27	\$ 1.34	\$1.43	\$ 1.88
Weighted average number of common shares outstanding:				
Basic	113,007,475	12,811,403	112,961,365	12,781,732
Diluted	113,383,360	13,159,844	113,343,711	13,138,897
Comprehensive Income:				
Net income	\$35,272	\$ 157,678	\$ 179,272	\$ 226,372
Other comprehensive income:				
Unrealized gain (loss) on interest rate derivative instruments (Note 4)	517	3,172	(34)	(17,051)
Reclassification adjustment for amounts recognized in net income (Note 4)	547	1,637	2,030	5,147
	36,336	162,487	181,268	214,468
Comprehensive income attributable to noncontrolling interests:				
Noncontrolling interests in consolidated entities	0	0	(8)	(8)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(51)	(209)	(245)	(284)
Comprehensive income attributable to noncontrolling interests	(51)	(209)	(253)	(292)
Comprehensive income attributable to the Company	\$36,285	\$ 162,278	\$ 181,015	\$ 214,176

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

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Equity
(in thousands, except per share/unit data)
(unaudited)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests in Operating Partnership	Total Noncontrolling Interests	Total Equity
Balance, December 31, 2015	\$72	\$1,131	\$(4,798)	\$2,684,010	\$(97)	\$(306,051)	\$2,374,267	\$18	\$3,198	\$3,216	\$2,377,483
Issuance of shares, net of offering costs	60	0	3,196	142,208	0	0	145,464	0	0	0	145,464
Repurchase of common shares into treasury	0	0	(2,145)	0	0	0	(2,145)	0	0	0	(2,145)
Deferred compensation, net	0	0	2,971	2,918	0	0	5,889	0	0	0	5,889
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(365)	(365)	0	0	0	(365)
Distributions on common shares/units (\$1.35 per share/unit)	0	0	0	0	0	(152,785)	(152,785)	0	(196)	(196)	(152,981)
Distributions on preferred shares	0	0	0	0	0	(12,802)	(12,802)	(9)	0	(9)	(12,811)
Net income	0	0	0	0	0	226,065	226,065	8	299	307	226,372
Other comprehensive income:											
Unrealized loss on interest rate	0	0	0	0	(17,029)	0	(17,029)	0	(22)	(22)	(17,051)

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derivative instruments												
Reclassification adjustment for amounts recognized in net income	0	0	0	0	5,140	0	5,140	0	7	7	5,147	
Balance, September 30, 2016	\$132	\$1,131	\$(776)	) \$2,829,136	\$(11,986)	\$(245,938)	\$2,571,699	\$17	\$3,286	\$3,303	\$2,575,000	
Balance, December 31, 2016	\$132	\$1,131	\$(739)	) \$2,830,740	\$2,365	\$(275,564)	\$2,558,065	\$17	\$3,277	\$3,294	\$2,561,350	
Issuance of shares, net of offering costs	0	0	3,776	(2,536)	) 0	0	1,240	0	0	0	1,240	
Redemption of preferred shares	(28)	) 0	0	(66,341)	) 0	(2,401)	(68,770)	) 0	0	0	(68,770)	
Repurchase of common shares into treasury	0	0	(4,241)	) 0	0	0	(4,241)	) 0	0	0	(4,241)	
Deferred compensation, net	0	1	651	4,522	0	0	5,174	0	0	0	5,174	
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(780)	(780)	) 0	0	0	(780)	
Distributions on common shares/units (\$1.35 per share/unit)	0	0	0	0	0	(152,976)	(152,976)	) 0	(196)	(196)	(153,172)	
Distributions on preferred shares	0	0	0	0	0	(13,908)	(13,908)	) (8)	) 0	(8)	(13,916)	
Net income	0	0	0	0	0	179,022	179,022	8	242	250	179,272	
Other comprehensive income:												
Unrealized loss on interest rate derivative instruments	0	0	0	0	(34)	) 0	(34)	) 0	0	0	(34)	
Reclassification adjustment for amounts	0	0	0	0	2,027	0	2,027	0	3	3	2,030	

recognized in
net income

Balance,

September 30, 2017

\$104	\$1,132	\$(553))	\$2,766,385	\$4,358	\$(266,607)	\$2,504,819	\$17	\$3,326	\$3,343	\$2,508,16
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The accompanying notes are an integral part of these consolidated financial statements.

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LASALLE HOTEL PROPERTIES
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$179,272	\$226,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134,684	144,491
Amortization of debt issuance costs	2,098	2,554
Loss from extinguishment of debt	1,706	0
Net gain on sale of properties and sale of note receivable	(85,545)	(104,549)
Amortization of deferred compensation	5,174	5,889
Deferred income tax expense	172	1,499
Allowance for doubtful accounts	118	38
Other	1,352	221
Changes in assets and liabilities:		
Restricted cash reserves	237	3,090
Hotel receivables	(13,114)	(10,835)
Prepaid expenses and other assets	(16,548)	(6,372)
Accounts payable and accrued expenses	7,088	7,651
Advance deposits	2,772	7,459
Accrued interest	10	(1,193)
Net cash provided by operating activities	219,476	276,315
Cash flows from investing activities:		
Additions to properties	(67,023)	(61,006)
Improvements to properties	0	(14,147)
Purchase of office furniture and equipment	(14)	(22)
Proceeds from sale of note receivable	0	79,712
Restricted cash reserves	(1,356)	8,134
Proceeds from sale of properties	402,400	166,736
Property insurance proceeds	2,735	1,602
Net cash provided by investing activities	336,742	181,009
Cash flows from financing activities:		
Borrowings under credit facilities	0	431,496
Repayments under credit facilities	0	(452,496)
Repayments of mortgage loans	0	(286,294)
Payment of debt issuance costs	(4,626)	(5)
Purchase of treasury shares	(4,241)	(2,145)
Proceeds from issuance of preferred shares	0	150,000

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Payment of preferred offering costs	0	(4,922)
Payment of common offering costs	0	(94)
Distributions on earned shares from share awards with market conditions	(780)	(365)
Redemption of preferred shares	(68,750)	0
Distributions on preferred shares	(15,205)	(10,448)
Distributions on common shares/units	(152,983)	(152,783)
Net cash used in financing activities	(246,585)	(328,056)
Net change in cash and cash equivalents	309,633	129,268
Cash and cash equivalents, beginning of period	134,652	5,700
Cash and cash equivalents, end of period	\$444,285	\$134,968

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

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LASALLE HOTEL PROPERTIES

Notes to Consolidated Financial Statements

(in thousands, except share/unit data)

(unaudited)

1. Organization

LaSalle Hotel Properties (the “Company”), a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed real estate investment trust (“REIT”) as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, “LHL”), the Company’s wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates.

As of September 30, 2017, the Company owned interests in 41 hotels with approximately 10,450 guest rooms located in seven states and the District of Columbia. Each hotel is leased to LHL (see Note 8) under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2017 and December 2019. Lease revenue from LHL is eliminated in consolidation. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company’s assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at September 30, 2017. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2017. See Note 6 for additional disclosures related to common units of the Operating Partnership.

2. Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. As such, certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of equity and consolidated statements of cash flows for the periods presented. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 due to seasonal and other factors. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Basis of Presentation

The consolidated financial statements include the accounts of the Company, the Operating Partnership, LHL and their subsidiaries in which they have a controlling interest, including joint ventures. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last month of each quarter. Each quarter, the Company reviews

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the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

Investment in Hotel Properties

Upon acquisition, the Company determines the fair value of the acquired long-lived assets, assumed debt and intangible assets and liabilities. The Company's investments in hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 30 to 40 years for buildings, 15 years for building improvements, the shorter of the useful life of the improvement or the term of the related tenant lease for tenant improvements, seven years for land improvements, 20 years for golf course land improvements, 20 years for swimming pool assets and three to five years for furniture, fixtures and equipment. For investments subject to land and building leases that qualify as capital leases, assets are recorded at the estimated fair value of the right to use the leased property at acquisition and depreciated over the shorter of the useful lives of the assets or the term of the respective lease. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

The Company is required to make subjective assessments as to the useful lives and classification of its properties for purposes of determining the amount of depreciation expense to reflect each year with respect to those properties. These assessments have a direct impact on the Company's net income. Should the Company change the expected useful life or classification of particular assets, it would result in a change in depreciation expense and annual net income.

Share-Based Compensation

From time to time, the Company awards shares under the 2014 Equity Incentive Plan, as amended ("2014 Plan"), which has approximately six years remaining, as compensation to executives, employees and members of the Board of Trustees (see Note 7). The shares issued to executives and employees generally vest over three years. The shares issued to members of the Board of Trustees vest immediately upon issuance. The Company recognizes compensation expense for nonvested shares with service conditions or service and market conditions on a straight-line basis over the vesting period based upon the fair value of the shares on the date of issuance, adjusted for forfeitures. Compensation expense for nonvested shares with service and performance conditions is recognized based on the fair value of the estimated number of shares expected to vest, as revised throughout the vesting period, adjusted for forfeitures. The 2014 Plan replaced the 2009 Equity Incentive Plan ("2009 Plan") in May 2014.

Noncontrolling Interests

The Company's consolidated financial statements include entities in which the Company has a controlling financial interest. Noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. On the consolidated statements of operations and comprehensive income (loss), revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and noncontrolling interests. Income or loss is allocated to noncontrolling interests based on their weighted average ownership percentage for the applicable period. Consolidated statements of equity include beginning balances, activity for the period and ending balances for shareholders' equity, noncontrolling interests and total equity.

However, the Company's noncontrolling interests that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. The Company

makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether the Company controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under share settlement of the contract. As of September 30, 2017, the consolidated results of the Company include the following ownership interests held by owners other than the Company: (i) the common units in the Operating Partnership held by third parties, (ii) the outside preferred ownership interests in a subsidiary and (iii) the outside ownership interest in a joint venture.

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Variable Interest Entities

The Operating Partnership is a variable interest entity. The Company's 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.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), 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. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. By working in conjunction with its hotel operators, the Company has completed its evaluation of the effect that ASU No. 2014-09 will have on its consolidated financial statements and its evaluation of each of its revenue streams under the new standard. Because of the short-term, day-to-day nature of the Company's hotel revenues the Company has determined that the pattern of revenue recognition will not change significantly. Additionally, the Company does not sell hotel properties to customers as defined by FASB, but has historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, ASU No. 2014-09 will not impact the recognition of hotel sales. The Company is currently finalizing its expanded disclosure for the notes to the consolidated financial statements pursuant to the new requirements. The Company will adopt the new standard on its effective date of January 1, 2018 under the cumulative effect transition method.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not initial direct leasing costs. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The Company is creating an inventory of its leases and is analyzing its current ground lease obligations. The Company anticipates recording assets and liabilities on its consolidated balance sheets associated with the ground lease obligations under ASU No. 2016-02.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business and adds further guidance in evaluating whether a transaction should be accounted for as an acquisition of an asset or a business. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company early adopted this standard on January 1, 2017.

In February 2017, the FASB issued ASU No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. ASU No. 2017-05 will impact the recognition of gains and losses from hotel sales. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company is evaluating the effect that ASU No. 2017-05 will have on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the

application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company is evaluating the effect that ASU No. 2017-12 will have on its consolidated financial statements and related disclosures.

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3. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2017 and December 31, 2016 consists of the following:

	September 30, 2017	December 31, 2016
Land	\$624,782	\$727,176
Buildings and improvements	3,263,572	3,531,280
Furniture, fixtures and equipment	733,459	769,671
Investment in hotel properties, gross	4,621,813	5,028,127
Accumulated depreciation	(1,349,895)	(1,355,918)
Investment in hotel properties, net	\$3,271,918	\$3,672,209

As of September 30, 2017, buildings and improvements included capital lease assets of \$149,457 and accumulated depreciation included amounts related to capital lease assets of \$25,890. As of December 31, 2016, buildings and improvements included capital lease assets of \$183,503 and accumulated depreciation included amounts related to capital lease assets of \$26,230. Depreciation of the capital lease assets is included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income for all periods presented.

Depreciation expense was \$43,205 and \$134,264 for the three and nine months ended September 30, 2017, respectively, and \$47,888 and \$144,088 for the three and nine months ended September 30, 2016, respectively.

Dispositions

Upon the sale of a hotel, the Company determines its profit from the sale under the full accrual method provided the following applicable criteria are met: (i) a sale is consummated; (ii) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property; (iii) the Company's receivable, if applicable, is not subject to future subordination; (iv) the Company has transferred to the buyer the usual risks and rewards of ownership; and (v) the Company does not have a substantial continuing involvement with the property. If all of these conditions are met, the Company will recognize the full profit on the sale.

During the nine months ended September 30, 2016, the Company sold Indianapolis Marriott Downtown. During the nine months ended September 30, 2017, the Company sold Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia. These dispositions do not represent a strategic shift in the Company's business plan or primary markets, and therefore, do not qualify as discontinued operations. The sale of each property was recorded on the full accrual method.

On July 14, 2016, the Company sold Indianapolis Marriott Downtown for \$165,000. The Company recognized a gain of \$104,837 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016.

On January 19, 2017, the Company sold Hotel Deca for \$55,000. As of December 31, 2016, Hotel Deca qualified as held for sale. Substantially all of the assets held for sale consisted of investment in hotel properties, net and immaterial prepaid expenses and other assets and the liabilities of assets held for sale consisted of accounts payable and accrued expenses. The Company recognized a gain of zero and \$30,656 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The proceeds were used for general corporate purposes.

On March 22, 2017, the Company sold Lansdowne Resort for \$133,000. The Company recognized a gain of zero and \$10,253 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The proceeds were used for general corporate purposes and the redemption of the 7.5% Series H Cumulative Redeemable

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Preferred Shares (the “Series H Preferred Shares”) on May 4, 2017 (see Note 6).

On March 31, 2017, the Company sold Alexis Hotel for \$71,625. The Company recognized a gain of zero and \$33,420 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The proceeds were used for general corporate purposes and the redemption of the Series H Preferred Shares on May 4, 2017 (see Note 6).

On April 11, 2017, the Company sold Hotel Triton for \$14,250. The Company recognized a gain of zero and \$6,739 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The proceeds were used for general corporate purposes and the redemption of the Series H Preferred Shares on May 4, 2017 (see Note 6).

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On June 29, 2017, the Company sold Westin Philadelphia for \$135,000. The Company recognized a gain of \$31 and \$4,477 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The proceeds were used for general corporate purposes.

Note Receivable

On July 20, 2015, the Company provided a junior mezzanine loan (the “Mezzanine Loan”) secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, in Santa Monica, CA. The Company entered into the Mezzanine Loan for a total purchase price of \$80,000 before closing costs. On July 8, 2016, the Company sold the Mezzanine Loan at face value for \$80,000 less costs associated with the sale of \$288, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016.

4. Long-Term Debt

Debt Summary

Debt as of September 30, 2017 and December 31, 2016 consisted of the following:

Debt	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2017	December 31, 2016
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2021 ^(a)	\$0	\$0
LHL unsecured credit facility	Floating ^(b)	January 2021 ^(b)	0	0
Total borrowings under credit facilities			0	0
Term loans				
First Term Loan	Floating/Fixed ^(c)	January 2022	300,000	300,000
Second Term Loan	Floating/Fixed ^(c)	January 2021	555,000	555,000
Debt issuance costs, net			(1,951)	(2,242)
Total term loans, net of unamortized debt issuance costs			853,049	852,758
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(16)	(45)
Total bonds payable, net of unamortized debt issuance costs			42,484	42,455
Mortgage loan				
Westin Copley Place	Floating ^(e)	August 2018 ^(e)	225,000	225,000
Debt issuance costs, net			(800)	(1,506)
Total mortgage loan, net of unamortized debt issuance costs			224,200	223,494
Total debt			\$1,119,733	\$1,118,707

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 credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2017 and December 31, 2016. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

^(b) Borrowings bear interest at floating rates equal to, at LHL’s option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no

borrowings outstanding at September 30, 2017 and December 31, 2016. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan (as defined below) and the Second Term Loan (as defined below). At September 30, 2017 and December 31, 2016, the Company had interest rate swaps on the full amounts outstanding. See “Derivative and Hedging Activities” below. At September 30, 2017, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 3.23% and 2.95%, respectively, at the Company’s current leverage ratio (as defined in the swap agreements). At December 31, 2016, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 2.38% and 2.95%, respectively, at the Company’s current leverage ratio (as defined in the swap agreements).

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The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association and the letters of credit are secured by the Hyatt Regency Boston Harbor. In August 2017, the Company exercised its final extension option to extend the letters of credit through March 1, 2018, the Massport Bonds' maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2017 were 1.19% and 0.98% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2016 were 0.75% and 0.76% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place's net cash flow (as defined in the loan agreement). The interest rate as of September 30, 2017 was LIBOR plus 1.75%, which equaled 2.99%.

The interest rate as of December 31, 2016 was LIBOR plus 1.75%, which equaled 2.46%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

Future scheduled debt principal payments as of September 30, 2017 (refer to previous table for extension options) are as follows:

2017	\$0
2018	267,500
2019	0
2020	0
2021	555,000
Thereafter	300,000
Total debt	\$1,122,500

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2017 and 2016 is as follows:

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest Expense:				
Interest incurred	\$9,561	\$9,552	\$27,553	\$31,421
Amortization of debt issuance costs	669	841	2,098	2,554
Capitalized interest	(204)	(61)	(375)	(294)
Interest expense	\$10,026	\$10,332	\$29,276	\$33,681

Weighted Average Interest Rates for Unswapped

Variable Rate Debt:

Senior unsecured credit facility	N/A	2.17	%	N/A	2.14	%
LHL unsecured credit facility	N/A	N/A		N/A	2.13	%
Massport Bonds	0.95	%	0.55	%	0.84	%
Mortgage loan (Westin Copley Place)	2.97	%	2.25	%	2.76	%

Credit Facilities

On January 10, 2017, the Company refinanced its \$750,000 senior unsecured credit facility with a syndicate of banks. As amended, the credit facility now matures on January 8, 2021, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee.

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The credit facility, with a current commitment of \$750,000, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$1,250,000. Borrowings under the credit facility 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 credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

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On January 10, 2017, LHL also refinanced its \$25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. As amended, the LHL credit facility matures on January 10, 2021, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL unsecured credit facility.

The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's senior unsecured credit facility. While the senior unsecured credit facility does not initially include any pledges of equity interests in the Company's subsidiaries, in connection with the January 10, 2017 refinancing, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Term Loans

On January 10, 2017, the Company refinanced its \$300,000 unsecured term loan (the "First Term Loan") that matures on January 10, 2022. The First Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$500,000. The First Term Loan bears interest at variable rates.

On January 10, 2017, the Company amended and restated its \$555,000 unsecured term loan (the "Second Term Loan") that matures on January 29, 2021. The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$700,000. The Second Term Loan bears interest at variable rates.

The Company has entered into interest rate swap agreements to effectively fix the LIBOR rates for the term loans (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's term loans. While the term loans do not initially include any pledges of equity interests in the Company's subsidiaries, in connection with the January 10, 2017 refinancing, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCI") related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company's variable rate debt. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300,000 to hedge the variable interest rate on the First Term Loan through August 2, 2017. Effective August 2, 2017, the Company entered into six new interest rate swap agreements

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with an aggregate notional amount of \$300,000 to hedge the variable interest rate on the First Term Loan through January 10, 2022, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 3.23% at September 30, 2017. As of September 30, 2017, the Company has interest rate swaps with an aggregate notional amount of \$555,000 to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate swaps with an aggregate notional amount of \$377,500 to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following tables present the effect of derivative instruments on the Company's accompanying consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2017 and 2016:

	Amount of Gain Recognized in OCI on Derivative Instruments (Effective Portion) For the three months ended September 30, 2017	2016	Location of Loss Reclassified from AOCI into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Net Income (Effective Portion) For the three months ended September 30, 2016
Derivatives in cash flow hedging relationships:				
Interest rate swaps	\$517	\$3,172	Interest expense	\$547 \$1,637
	Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion)		Location of Loss Reclassified from AOCI into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Net Income (Effective Portion)

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	For the nine months ended September 30, 2017	2016	For the nine months ended September 30, 2017	2016
Derivatives in cash flow hedging relationships:				
Interest rate swaps	\$(34)	\$(17,051)	Interest expense	\$2,030 \$5,147

During the nine months ended September 30, 2017 and 2016, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2017, there was \$4,364 in cumulative unrealized gain of which \$4,358 was included in AOCI and \$6 was attributable to noncontrolling interests. As of December 31, 2016, there was \$2,368 in cumulative unrealized gain of which \$2,365 was included in AOCI and \$3 was attributable to noncontrolling interests. The Company expects that approximately \$3,119 will be reclassified from AOCI and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2017.

Extinguishment of Debt

As discussed above, on January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of zero and \$1,706, which is included in the accompanying consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Mortgage Loan

The Company's mortgage loan is secured by the property. The mortgage is non-recourse to the Company except for fraud or misapplication of funds.

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The Company's mortgage loan contains debt service coverage ratio tests related to the mortgaged property. If the debt service coverage ratio for the property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows may be directed to the lender ("cash trap") until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

Financial Covenants

Failure of the Company to comply with financial and other covenants contained in its credit facilities, term loans and non-recourse secured mortgage could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to its shareholders.

A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of September 30, 2017, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable and mortgage loan.

5. Commitments and Contingencies**Ground, Land and Building, and Air Rights Leases**

A summary of the Company's hotels subject to non-cancelable operating leases as of September 30, 2017 is as follows:

Lease Properties	Lease Type	Lease Expiration Date
Southernmost Beach Resort Key West (Restaurant facility)	Ground lease	April 2019 ⁽¹⁾
Hyatt Regency Boston Harbor	Ground lease	March 2026 ⁽²⁾
The Hilton San Diego Resort and Spa	Ground lease	December 2045
San Diego Paradise Point Resort and Spa	Ground lease	May 2050
Hotel Vitale	Ground lease	March 2056 ⁽³⁾
Viceroy Santa Monica	Ground lease	September 2065
Westin Copley Place ⁽⁴⁾	Air rights lease	December 2077
The Liberty Hotel	Ground lease	May 2080
Hotel Solamar	Ground lease	December 2102

⁽¹⁾ The Company can begin negotiating a renewal one year in advance of the lease expiration date.

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- (2) The Company has options, subject to certain terms and conditions, to extend the ground lease for 51 years to 2077.
- (3) The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.
- (4) No payments are required through maturity.

The ground leases at Viceroy Santa Monica, The Liberty Hotel and Hotel Vitale are subject to minimum annual rent increases, resulting in noncash straight-line rent expense of \$459 and \$1,384 for the three and nine months ended September 30, 2017,

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respectively, and \$472 and \$1,420 for the three and nine months ended September 30, 2016, respectively, which is included in total ground rent expense. Total ground rent expense for the three and nine months ended September 30, 2017 was \$4,788 and \$11,996, respectively. Total ground rent expense for the three and nine months ended September 30, 2016 was \$4,570 and \$12,491, respectively. Certain rent payments are based on the hotel's performance. Actual payments of rent may exceed the minimum required rent due to meeting specified thresholds. A summary of the Company's hotels subject to capital leases of land and building as of September 30, 2017 is as follows:

Lease Properties	Estimated Present Value of Remaining Rent Payments ⁽¹⁾	Lease Expiration Date
The Roger	\$ 4,892	December 2044
Harbor Court Hotel	\$ 18,424	April 2048

⁽¹⁾ At acquisition, the estimated present value of the remaining rent payments were recorded as capital lease obligations. These obligations, net of amortization, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Actual base and participating ground rent payments related to The Roger and Harbor Court Hotel were \$99 and \$335 for the three months ended September 30, 2017, respectively, and \$298 and \$921 for the nine months ended September 30, 2017, respectively. Actual base and participating ground rent payments related to The Roger and Harbor Court Hotel were \$99 and \$334 for the three months ended September 30, 2016, respectively, and \$298 and \$1,004 for the nine months ended September 30, 2016, respectively.

As of September 30, 2017, future minimum rent payments, including capital lease payments, (without reflecting future applicable Consumer Price Index increases) are as follows:

2017	\$2,836
2018	11,442
2019	11,389
2020	11,730
2021	11,850
Thereafter	487,362
	\$536,609

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (i) certain non-routine repairs and maintenance to the hotels and (ii) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of September 30, 2017, \$12,929 was available in restricted cash reserves for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

Restricted Cash Reserves

At September 30, 2017, the Company held \$14,654 in restricted cash reserves. Included in such amounts are \$12,929 of reserve funds for future capital expenditures and \$1,725 held by insurance and management companies on the Company's behalf to be refunded or applied to future liabilities.

Litigation

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, 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 the liquidity, results of operations, business or financial condition of the Company.

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6. Equity

Common Shares of Beneficial Interest

On January 1, 2017, the Company issued 16,010 common shares of beneficial interest and authorized an additional 9,103 deferred shares to the independent members of its Board of Trustees for their 2016 compensation. These common shares of beneficial interest were issued under the 2014 Plan.

On January 31, 2017, the Company issued 27,767 common shares of beneficial interest related to the resignation of a former member of its Board of Trustees for his accumulated deferred shares granted as compensation for 2001 through 2016. These common shares of beneficial interest were issued under the 2009 Plan and 2014 Plan.

On March 2, 2017, the Company issued 38,599 common shares of beneficial interest to executives related to the nonvested share awards with either market or performance conditions granted on March 20, 2014 (see Note 7 for additional details, including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

On March 23, 2017, the Company issued 122,816 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2018, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On July 1, 2017, the Company issued 40,000 common shares of beneficial interest to an executive related to the nonvested share awards with market conditions granted on May 31, 2008 (see Note 7 for additional details including vesting information). All of the shares vested immediately on July 1, 2017. These common shares of beneficial interest were issued under the 2009 Plan.

On August 11, 2017, the Company issued 38,260 common shares of beneficial interest to executives related to the nonvested share awards with either market or performance conditions granted on March 20, 2014 (see Note 7 for additional details, including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

Common Dividends

The Company paid the following dividends on common shares/units during the nine months ended September 30, 2017:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Date Paid
\$0.45	December 31, 2016	December 30, 2016	January 17, 2017
\$0.45	March 31, 2017	March 31, 2017	April 17, 2017
\$0.45	June 30, 2017	June 30, 2017	July 17, 2017

Treasury Shares

Treasury shares are accounted for under the cost method. During the nine months ended September 30, 2017, the Company received 143,147 common shares of beneficial interest related to employees surrendering shares to pay minimum withholding taxes on the vesting date and forfeiting nonvested shares upon resignation.

The Company's Board of Trustees has authorized an expanded share repurchase program (the "Repurchase Program") to acquire up to \$600,000 of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of September 30, 2017, the Company has availability under the Repurchase Program to acquire up to \$569,807 of common shares of beneficial interest. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with

applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

During the nine months ended September 30, 2017, the Company re-issued 16,010 treasury shares related to earned 2016 compensation for the Board of Trustees, 27,767 treasury shares related to the resignation of a former member of the Board of Trustees for his accumulated deferred shares granted as compensation for 2001 through 2016, 84,316 treasury shares related to the earned share awards with market or performance conditions and 22,775 treasury shares related to the grants of nonvested shares with service conditions.

At September 30, 2017, there were 19,647 common shares of beneficial interest in treasury.

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Preferred Shares

The following preferred shares of beneficial interest were outstanding as of September 30, 2017:

Security Type	Number of Shares
6.375% Series I Preferred Shares	4,400,000
6.3% Series J Preferred Shares	6,000,000

On May 4, 2017, the Company redeemed all of the outstanding Series H Preferred Shares for \$68,750 (\$25.00 per share) plus \$272 of accrued and unpaid dividends through the redemption date. The redemption value of the Series H Preferred Shares exceeded their carrying value by \$2,401, which is included in the determination of net income attributable to common shareholders for the nine months ended September 30, 2017. The \$2,401 represents the offering costs related to the redeemed Series H Preferred Shares.

The 6.375% Series I Cumulative Redeemable Preferred Shares (the “Series I Preferred Shares”) and the 6.3% Series J Cumulative Redeemable Preferred Shares (the “Series J Preferred Shares”) (collectively, the “Preferred Shares”) rank senior to the common shares of beneficial interest and on parity with each other with respect to payment of distributions. The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares of beneficial interest unless it has also paid (or set aside for payment) the full cumulative distributions on the Preferred Shares for all past dividend periods. The outstanding Preferred Shares do not have any maturity date, and are not subject to mandatory redemption. The difference between the carrying value and the redemption amount of the Preferred Shares are the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares.

The Company may not optionally redeem the Series I Preferred Shares and the Series J Preferred Shares prior to March 4, 2018 and May 25, 2021, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. After those dates, the Company may, at its option, redeem the 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. In addition, 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 of beneficial interest and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE American LLC or the NASDAQ Stock Market, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days after the change of control occurred, by paying \$25.00 per share, plus any accrued and unpaid distributions. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of Series I Preferred Shares and Series J Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares of beneficial interest based on a defined formula subject to a cap of 8,835,200 common shares and 12,842,400 common shares, respectively.

Preferred Dividends

The Company paid the following dividends on preferred shares during the nine months ended September 30, 2017:

Security Type	Dividend per Share ⁽¹⁾	For the Quarter Ended	Record Date	Date Paid
7.5% Series H	\$ 0.47	December 31, 2016	December 30, 2016	January 17, 2017
6.375% Series I	\$ 0.40	December 31, 2016	December 30, 2016	January 17, 2017
6.3% Series J	\$ 0.39	December 31, 2016	December 30, 2016	January 17, 2017
7.5% Series H	\$ 0.47	March 31, 2017	March 31, 2017	April 17, 2017
6.375% Series I	\$ 0.40	March 31, 2017	March 31, 2017	April 17, 2017
6.3% Series J	\$ 0.39	March 31, 2017	March 31, 2017	April 17, 2017

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6.375% Series I	\$ 0.40	June 30, 2017	June 30, 2017	July 17, 2017
6.3% Series J	\$ 0.39	June 30, 2017	June 30, 2017	July 17, 2017

⁽¹⁾ Amounts are rounded to the nearest whole cent for presentation purposes.

In addition, the final dividend payment of \$0.10 per Series H Preferred Share for the period April 15, 2017 through the redemption date of May 4, 2017 was included in the redemption price.

Noncontrolling Interests of Common Units in Operating Partnership

As of September 30, 2017, the Operating Partnership had 145,223 common units of limited partnership interest outstanding, representing a 0.1% partnership interest, held by the limited partners. As of September 30, 2017, approximately \$4,211 of cash or

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the equivalent value in common shares, at the Company's option, would be paid to the limited partners of the Operating Partnership if the partnership were terminated. The approximate value of \$4,211 is based on the Company's closing common share price of \$29.00 on September 30, 2017, which is assumed to be equal to the value provided to the limited partners upon liquidation of the Operating Partnership. Subject to certain limitations, the outstanding common units of limited partnership interest are redeemable for cash, or at the Company's option, for a like number of common shares of beneficial interest of the Company.

7. Equity Incentive Plan

The 2014 Plan permits the Company to issue equity-based awards to executives, employees, non-employee members of the Board of Trustees and any other persons providing services to or for the Company and its subsidiaries. The 2014 Plan provides for a maximum of 2,900,000 common shares of beneficial interest to be issued in the form of share options, share appreciation rights, restricted or unrestricted share awards, phantom shares, performance awards, incentive awards, other share-based awards, or any combination of the foregoing. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2014 Plan during any fiscal year to any one individual is limited to 500,000 shares. The 2014 Plan terminates on February 17, 2024. The 2014 Plan authorized, among other things: (i) the grant of share options that qualify as incentive options under the Code, (ii) the grant of share options that do not so qualify, (iii) the grant of common shares in lieu of cash for trustees' fees, (iv) grants of common shares in lieu of cash compensation and (v) the making of loans to acquire common shares in lieu of compensation (to the extent permitted by law and applicable provisions of the Sarbanes Oxley Act of 2002). The exercise price of share options is determined by the Compensation Committee of the Board of Trustees, but may not be less than 100% of the fair value of the common shares on the date of grant. Restricted share awards and options under the 2014 Plan vest over a period determined by the Compensation Committee of the Board of Trustees, generally a three year period. The duration of each option is also determined by the Compensation Committee, subject to applicable laws and regulations. At September 30, 2017, there were 2,512,958 common shares available for future grant under the 2014 Plan. The 2014 Plan replaced the 2009 Plan. The Company will no longer make any grants under the 2009 Plan (although awards previously made under the 2009 Plan that are outstanding will remain in effect in accordance with the terms of that plan and the applicable award agreements).

Nonvested Share Awards with Service Conditions

From time to time, the Company awards nonvested shares under the 2014 Plan to executives, employees and members of the Board of Trustees. The nonvested shares issued to executives and employees generally vest over three years based on continued employment. The shares issued to the members of the Board of Trustees vest immediately upon issuance. The Company determines the grant date fair value of the nonvested shares based upon the closing price of its common shares on the New York Stock Exchange on the date of grant and number of shares per the award agreements. Compensation costs are recognized on a straight-line basis over the requisite service period and are included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income.

A summary of the Company's nonvested share awards with service conditions as of September 30, 2017 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2017	236,759	\$ 30.78
Granted	126,217	29.04
Vested	(147,272)	30.98
Forfeited	(443)	28.72

Nonvested at September 30, 2017 215,261 \$ 29.14

As of September 30, 2017 and December 31, 2016, there were \$3,914 and \$2,798, respectively, of total unrecognized compensation costs related to nonvested share awards with service conditions. As of September 30, 2017 and December 31, 2016, these costs were expected to be recognized over a weighted-average period of 1.4 years and 1.2 years, respectively. The total intrinsic value of shares vested (calculated as number of shares multiplied by vesting date share price) during the three and nine months ended September 30, 2017 was \$20 and \$4,437, respectively, and during the three and nine months ended September 30, 2016 was zero and \$2,256, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with service conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were \$732 and \$2,415 for the three and nine months ended September 30, 2017, respectively, and \$700 and \$2,289 for the three and nine months ended September 30, 2016, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, all of his nonvested share awards with service conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized

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compensation costs related to his nonvested share awards with service conditions over the estimated remaining service period. On May 6, 2016, all of his nonvested share awards with service conditions vested with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was zero and \$538 for the three and nine months ended September 30, 2016, respectively.

Nonvested Share Awards with Market or Performance Conditions

On January 26, 2012, the Company's Board of Trustees granted a target of 79,823 nonvested share awards with market conditions to executives (the "January 26, 2012 Awards"). On January 1, 2015, the executives earned 136.3% of the 79,823 target number of shares, or 108,779 shares. Of the shares earned, 36,261 and 36,260 shares vested on January 1, 2015 and January 1, 2016, respectively. On May 6, 2016, upon his termination, all of the former Chief Financial Officer's 6,882 earned shares vested immediately. The remaining 29,376 earned shares vested on January 4, 2017. The executives received a cash payment of \$334 on the earned shares equal to the value of all dividends paid on common shares from January 1, 2012 until the determination date, January 1, 2015. As of January 1, 2015, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares.

On March 20, 2014, the Company's Board of Trustees granted a target of 57,385 nonvested share awards, exclusive of the 14,582 shares granted to the former Chief Financial Officer, with either market or performance conditions to executives (the "March 20, 2014 Awards"). On February 24, 2017, the executives earned 134.5% of the 28,692 target number of shares, or 38,599 shares, and all of the earned shares vested immediately. The executives also received a cash payment of \$190 on the shares equal to the value of all dividends paid on common shares from January 1, 2014 until the determination date, February 24, 2017. As of February 25, 2017, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares. On August 11, 2017, the executives earned 133.3% of the 28,693 target number of shares, or 38,260 shares, and all of the earned shares vested immediately. The executives also received a cash payment of \$223 on the shares equal to the value of all dividends paid on common shares from January 1, 2014 until the determination date, August 11, 2017. As of August 11, 2017, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares.

On July 1, 2017, the Company issued 40,000 nonvested shares to an executive who earned 80.0% of the 50,000 target number of shares from the nonvested share awards with market conditions granted on May 31, 2008. All of the shares earned vested immediately on July 1, 2017. The executive received a cash payment of \$367 on the earned shares equal to the value of all dividends paid on common shares from May 31, 2008 until the determination date, July 1, 2017. As of July 1, 2017, the executive is entitled to receive dividends as declared and paid on the earned shares and to vote the shares. These common shares of beneficial interest were issued under the 2009 Plan.

On March 23, 2017, the Company's Board of Trustees granted a target of 124,526 nonvested share awards with either market or performance conditions to executives (the "March 23, 2017 Awards"). The actual amounts of the shares awarded with respect to 62,264 of the 124,526 shares will be determined on or about January 1, 2020, based on the performance measurement period of January 1, 2017 through December 31, 2019, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 62,262 of the 124,526 shares will be determined on or about July 1, 2020, based on the performance measurement period of July 1, 2017 through June 30, 2020, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective

determination date. Such amounts will be paid to the awardees on or about January 1, 2020 and July 1, 2020, respectively. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 62,264 shares, amortization commenced on March 23, 2017, the beginning of the requisite service period, and, with respect to 62,262 shares, amortization commenced on July 1, 2017, the beginning of the requisite service period.

The terms stipulated in the March 23, 2017 Awards used to determine the total amount of the shares consist of the following three tranches: (1) a comparison of the Company's total return to the total returns' of up to seven companies in a designated peer group of the Company, (2) the Company's actual total return as compared to a Board-established total return goal and (3) a comparison of the Company's return on invested capital to the return on invested capital of up to seven companies in a designated peer group of the Company.

The tranches described in (1) and (2) are nonvested share awards with market conditions. For the March 23, 2017 Awards, the grant date fair value of the awards with market conditions were estimated by the Company using historical data under the

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Monte Carlo valuation method provided by a third party consultant. The final values were determined during the second quarter of 2017 with an insignificant cumulative adjustment to compensation cost recorded. The third tranche is based on “return on invested capital” discussed below, which is a performance condition. The grant date fair values of the tranches with performance conditions were calculated based on the targeted awards, and the valuation is adjusted on a periodic basis.

The capital market assumptions used in the valuations consisted of the following:

• Factors associated with the underlying performance of the Company’s share price and shareholder returns over the term of the awards including total share return volatility and risk-free interest.

• Factors associated with the relative performance of the Company’s share price and shareholder returns when compared to those companies which compose the index including beta as a means to breakdown total volatility into market-related and company specific volatilities.

• The valuation has been performed in a risk-neutral framework.

• Return on invested capital is a performance condition award measurement. The estimated value was calculated based on the initial face value at the date of grant. The valuation will be adjusted on a periodic basis as the estimated number of awards expected to vest is revised.

The assumptions used were as follows for each performance measure:

	Volatility	Interest Rates	Dividend Yield	Stock Beta	Fair Value of Components of Award	Weighting of Total Awards
March 23, 2017 Awards (performance period starting January 1, 2017)						
Target amounts	27.30 %	1.52 %	N/A	N/A	\$ 21.13	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 29.03	33.30 %
Peer companies	27.30 %	1.52 %	N/A	0.987	\$ 31.12	33.30 %
March 23, 2017 Awards (performance period starting July 1, 2017)						
Target amounts	27.30 %	1.52 %	N/A	N/A	\$ 25.34	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 29.03	33.30 %
Peer companies	27.30 %	1.52 %	N/A	0.987	\$ 30.82	33.30 %

A summary of the Company’s nonvested share awards with either market or performance conditions as of September 30, 2017 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2017	276,183	\$ 27.36
Granted ⁽¹⁾	144,000	28.33
Vested	(146,235)	34.25
Forfeited	(10,000)	37.48
Nonvested at September 30, 2017	263,948	\$ 27.04

⁽¹⁾ Amount includes 9,907 shares and 9,567 shares that were issued on February 24, 2017 and August 11, 2017, respectively, from the March 20, 2014 grant, which were earned in excess of the target amount.

As of September 30, 2017 and December 31, 2016, there were \$5,780 and \$3,757, respectively, of total unrecognized compensation costs related to nonvested share awards with market or performance conditions. As of September 30,

2017 and December 31, 2016, these costs were expected to be recognized over a weighted-average period of 2.1 years and 1.8 years, respectively. As of September 30, 2017 and December 31, 2016, there were 609,767 and 463,532 share awards with market or performance conditions vested, respectively. Additionally, there were zero and 29,376 nonvested share awards with market or performance conditions earned but nonvested due to a service condition as of September 30, 2017 and December 31, 2016, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with market or performance conditions that have been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income were \$798 and \$2,638 for the three and nine months ended September 30, 2017, respectively, and \$930 and \$2,966 for the three and nine months ended September 30, 2016, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, a portion of his nonvested share awards

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with market or performance conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized compensation costs on his nonvested share awards with market or performance conditions over the estimated remaining service period. On May 6, 2016 and May 9, 2016, a portion of his nonvested share awards with market or performance conditions vested, a portion was forfeited and additional shares were earned for awards valued at over 100% of the target, with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) related to his nonvested share awards with market or performance conditions that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was zero and \$96 for the three and nine months ended September 30, 2016, respectively.

For the three and nine months ended September 30, 2016, severance expense related to the former Chief Financial Officer's termination totaled zero and \$1,576, respectively, and included cash compensation and benefits, compensation for shares with service conditions and shares with market or performance conditions and cash payments related to dividends on restricted shares that vested.

8. LHL

Substantially all of the Company's revenues are derived from operating revenues generated by the hotels, all of which are leased by LHL.

Other indirect hotel operating expenses consist of the following expenses incurred by the hotels:

	For the three months ended September 30, 2017		For the nine months ended September 30, 2016	
General and administrative	\$23,325	\$26,362	\$72,885	\$78,004
Sales and marketing	16,246	18,443	51,813	56,932
Repairs and maintenance	9,115	9,908	28,073	29,655
Management and incentive fees	9,962	11,394	28,131	29,951
Utilities and insurance	7,807	8,914	22,912	25,443
Franchise fees	2,084	2,724	6,422	8,246
Other expenses	668	989	1,804	2,701
Total other indirect expenses	\$69,207	\$78,734	\$212,040	\$230,932

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As of September 30, 2017, LHL leased all 41 hotels owned by the Company as follows:

Hotel Properties	Location
1. Hotel Amarano Burbank	Burbank, CA
2. L' Auberge Del Mar	Del Mar, CA
3. Hilton San Diego Gaslamp Quarter	San Diego, CA
4. Hotel Solamar	San Diego, CA
5. San Diego Paradise Point Resort and Spa	San Diego, CA
6. The Hilton San Diego Resort and Spa	San Diego, CA
7. Harbor Court Hotel	San Francisco, CA
8. Hotel Vitale	San Francisco, CA
9. Park Central San Francisco	San Francisco, CA
10. Serrano Hotel	San Francisco, CA
11. The Marker San Francisco	San Francisco, CA
12. Villa Florence	San Francisco, CA
13. Chaminade Resort and Conference Center	Santa Cruz, CA
14. Viceroy Santa Monica	Santa Monica, CA
15. Chamberlain West Hollywood	West Hollywood, CA
16. Le Montrose Suite Hotel	West Hollywood, CA
17. Le Parc Suite Hotel	West Hollywood, CA
18. The Grafton on Sunset	West Hollywood, CA
19. Hotel George	Washington, DC
20. Hotel Madera	Washington, DC
21. Hotel Palomar, Washington, DC	Washington, DC
22. Hotel Rouge	Washington, DC
23. Mason & Rook Hotel	Washington, DC
24. Sofitel Washington, DC Lafayette Square	Washington, DC
25. The Donovan	Washington, DC
26. The Liaison Capitol Hill	Washington, DC
27. Topaz Hotel	Washington, DC
28. Southernmost Beach Resort Key West	Key West, FL
29. The Marker Waterfront Resort	Key West, FL
30. Hotel Chicago	Chicago, IL
31. Westin Michigan Avenue	Chicago, IL
32. Hyatt Regency Boston Harbor	Boston, MA
33. Onyx Hotel	Boston, MA
34. The Liberty Hotel	Boston, MA
35. Westin Copley Place	Boston, MA
36. Gild Hall	New York, NY
37. The Roger	New York, NY
38. Park Central Hotel New York (shared lease with WestHouse Hotel New York)	New York, NY
39. WestHouse Hotel New York	New York, NY
40. The Heathman Hotel	Portland, OR
41. Embassy Suites Philadelphia - Center City	Philadelphia, PA

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9. Income Taxes

Income tax expense was comprised of the following for the three and nine months ended September 30, 2017 and 2016:

	For the three months ended September 30, 2017		For the nine months ended September 30, 2016	
LHL's income tax expense	\$1,530	\$2,809	\$1,398	\$4,182
Operating Partnership's income tax expense	448	300	810	917
Total income tax expense	\$1,978	\$3,109	\$2,208	\$5,099

The Company has estimated LHL's income tax expense for the nine months ended September 30, 2017 by applying an estimated combined federal and state effective tax rate of 39.2% to LHL's net income of \$3,233. From time to time, the Company may be subject to federal, state or local tax audits in the normal course of business.

10. Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity's own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows:

Description	Consolidated Balance Sheet Location	Fair Value Measurements at	
		September 30, 2017	December 31, 2016
Derivative interest rate instruments	Prepaid expenses and other assets	\$4,364	\$ 3,295
Derivative interest rate instruments	Accounts payable and accrued expenses	\$0	\$ 927

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

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Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Borrowings under credit facilities	\$0	\$0	\$0	\$0
Term loans	\$855,000	\$856,173	\$855,000	\$857,224
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loan	\$225,000	\$224,163	\$225,000	\$225,224

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loan using interest rates ranging from 1.5% to 2.3% as of September 30, 2017 and from 1.5% and 1.8% as of December 31, 2016 with a weighted average effective interest rate of 1.6% and 1.5% as of September 30, 2017 and December 31, 2016, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At September 30, 2017 and December 31, 2016, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

11. Earnings Per Common Share

The limited partners' outstanding common units in the Operating Partnership (which may be converted to common shares of beneficial interest) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income or loss would also be added back to net income or loss. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation. Unvested share-based payment awards expected to vest that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders used in the basic and diluted earnings per share calculations. Net income or loss figures are presented net of noncontrolling interests in the earnings per share calculations.

The computation of basic and diluted earnings per common share is as follows:

	For the three months ended		For the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Numerator:				
Net income attributable to common shareholders	\$31,107	\$152,070	\$162,713	\$213,263
Dividends paid on unvested restricted shares	(97)	(119)	(339)	(371)
Undistributed earnings attributable to unvested restricted shares	0	(237)	(19)	(134)
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$31,010	\$151,714	\$162,355	\$212,758
Denominator:				

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Weighted average number of common shares - basic	113,007,475	12,811,403	112,961,365	12,781,732
Effect of dilutive securities:				
Compensation-related shares	375,885	348,441	382,346	357,165
Weighted average number of common shares - diluted	113,383,360	13,159,844	113,343,711	13,138,897
Earnings per Common Share - Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.27	\$ 1.34	\$ 1.44	\$ 1.89
Earnings per Common Share - Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.27	\$ 1.34	\$ 1.43	\$ 1.88

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12. Supplemental Information to Statements of Cash Flows

	For the nine months ended	
	September 30,	
	2017	2016
Interest paid, net of capitalized interest	\$27,168	\$32,320
Interest capitalized	375	294
Income taxes paid, net	633	4,279
Increase in distributions payable on common shares	63	57
(Decrease) increase in distributions payable on preferred shares	(1,288)	2,363
Write-off of fully depreciated furniture, fixtures and equipment	618	0
Write-off of fully amortized debt issuance costs	5,119	563
Increase (decrease) in accrued capital expenditures	5,089	(7,019)
Grant of nonvested shares and awards to employees and executives, net	8,313	4,793
Issuance of common shares for Board of Trustees compensation ⁽¹⁾	1,240	480
In conjunction with the sale of properties, the Company disposed of the following assets and liabilities:		
Sale proceeds, net of closing costs	\$398,178	\$164,165
Other assets	10,847	4,226
Liabilities	(6,625)	(1,655)
Proceeds from sale of properties	\$402,400	\$166,736

⁽¹⁾ Refer to Note 6 for issuances of previously deferred shares.

13. Subsequent Events

The Company paid the following common and preferred dividends subsequent to September 30, 2017:

Security Type	Dividend			
	per Share/Unit ⁽¹⁾	For the Quarter Ended	Record Date	Date Paid
Common Shares/Units	\$ 0.45	September 30, 2017	September 29, 2017	October 16, 2017
6.375% Series I Preferred Shares	\$ 0.40	September 30, 2017	September 29, 2017	October 16, 2017
6.3% Series J Preferred Shares	\$ 0.39	September 30, 2017	September 29, 2017	October 16, 2017

⁽¹⁾ Amounts are rounded to the nearest whole cent for presentation purposes.

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

The following should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I - Item 1 of this report.

Forward-Looking Statements

This report, together with other statements and information publicly disseminated by LaSalle Hotel Properties (the "Company"), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends 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 includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations, are generally identifiable by use of the words "believe," "expect,"

“intend,” “anticipate,” “estimate,” “project,” “may,” “plan,” “seek,” “should,” “will” or similar expressions. Forward-looking statements in this report include, among others, statements about the Company’s business strategy, including its acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets, expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital) and the Company’s two resorts located in Key West, FL, including the condition of the properties, the estimated cleanup and repair costs related to Hurricane Irma and the timing of re-opening and resumption of full operations at the properties. 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 the Company’s control and which could materially affect actual results,

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performances 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 for guests and meetings from other hotels and alternative lodging companies, increases in wages, energy costs and other operating costs, potential unionization or union disruption, actual or threatened terrorist attacks, any type of flu or disease-related pandemic and downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- the Company's dependence on third-party managers of its hotels, including its inability to implement strategic business decisions directly;
- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act of 1990, as amended, and similar laws;
- interest rate increases;
- the possible failure of the Company to maintain its qualification as a real estate investment trust ("REIT") as defined in the Internal Revenue Code of 1986, as amended (the "Code") and the risk of changes in laws affecting REITs;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns;
- the risk of a material failure, inadequacy, interruption or security failure of the Company's or the hotel managers' information technology networks and systems; and
- the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as updated elsewhere in this report.

Accordingly, there is no assurance that the Company's expectations will be realized. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for the Company to predict those events or how they may affect the Company. Except as otherwise required by law, the Company disclaims 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 the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time they were made, to anticipate future events or trends.

Overview

The Company, a Maryland real estate investment trust organized on January 15, 1998, primarily buys, owns, redevelops and leases upscale and luxury full-service hotels located in convention, resort and major urban business markets. The Company is a self-administered and self-managed REIT as defined in the Code. As a REIT, the Company is generally not subject to federal corporate income tax on that portion of its net income that is currently distributed to its shareholders. The income of LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, "LHL"), the Company's wholly owned taxable REIT subsidiary, is subject to taxation at normal corporate rates. As of September 30, 2017, the Company owned interests in 41 hotels with approximately 10,450 guest rooms located in seven states and the District of Columbia. Each hotel is leased to LHL under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2017 and December 2019. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company's assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the "Operating Partnership"). The Company is the sole general

partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at September 30, 2017. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at September 30, 2017.

In addition to measuring the Company's net income (loss), the Company also measures hotel performance by evaluating financial metrics such as room revenue per available room ("RevPAR"), funds from operations ("FFO") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company evaluates the hotels in its portfolio and potential acquisitions using these metrics to determine each hotel's contribution or potential contribution toward reaching the Company's goals of providing income to its shareholders through increases in distributable cash flow and increasing long-term total returns

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to shareholders through appreciation in the value of its common shares. The Company invests in capital improvements throughout the portfolio to continue to increase the competitiveness of its hotels and improve their financial performance. The Company actively seeks to acquire hotel properties, but continues to face significant competition for acquisitions that meet its investment criteria.

During the third quarter of 2017, the Company's hotels continued to operate within a generally positive environment. All of the economic indicators the Company tracks were encouraging throughout the quarter. On the more positive side, consumer confidence remains at an elevated level and corporate profits reported thus far for the third quarter have been strong. Unemployment remains low at 4.2% and enplanements have been steady, with airline capacity increases expected during calendar year 2017. Similarly, estimates for U.S. GDP growth in 2017 have been stable. The U.S. lodging industry benefited from a positive economic landscape overall, although there were continued signs of moderation in several markets, driven by increased hotel supply. The industry RevPAR grew at a rate of 1.9% during the third quarter, with lodging industry demand up by 2.4% and an offsetting supply increase of 1.9%. Industry-wide pricing was moderate, leading to average daily rate ("ADR") growth of 1.4%. The Company's portfolio benefited from the operating environment, with portfolio-wide occupancy of 90.2% for the quarter, reflecting sustained demand. Despite strong occupancy, the Company's RevPAR decreased during the quarter by 3.6% due to lower ADR. The Company's occupancy, ADR and RevPAR statistics disclosed in this report exclude third quarter results from its two resorts located in Key West, FL due to their temporary closure during and following Hurricane Irma in September 2017. See "Update on Key West Resorts" below.

For the third quarter of 2017, the Company had net income attributable to common shareholders of \$31.1 million, or \$0.27 per diluted share. FFO attributable to common shareholders and unitholders was \$74.4 million, or \$0.66 per diluted share/unit (based on 113,528,583 weighted average shares and units outstanding during the three months ended September 30, 2017) and EBITDA was \$90.6 million. RevPAR for the hotel portfolio was \$219.38, which was a decrease of 3.6% compared to the third quarter of 2016. Occupancy remained flat and ADR was down by 3.6%. Please refer to "Non-GAAP Financial Measures" for a detailed discussion of the Company's use of FFO and EBITDA and a reconciliation of FFO and EBITDA to net income or loss, a measurement computed in accordance with U.S. generally accepted accounting principles ("GAAP").

Update on Key West Resorts

After both resorts closed on September 6, 2017 to comply with all mandatory evacuations of the island ahead of Hurricane Irma, the Southernmost Beach Resort Key West partially re-opened on September 15, 2017 and The Marker Waterfront Resort remains closed. The Company has not identified any structural damage at either of its resorts. While the Company is still assessing the condition of both properties, it currently believes that the damage is not significant and is primarily related to water intrusion. The Company expects both resorts will resume full operations by the end of October 2017.

The Company maintains property, flood, fire and business interruption insurance at its two resorts in Key West. For the combined properties, insurance is subject to deductibles of approximately \$5.0 million in total which encompasses both property and business interruption coverage.

Critical Accounting Estimates

Substantially all of the Company's revenues and expenses are generated by the operations of the individual hotels. The Company records revenues and expenses that are estimated by the hotel operators and reviewed by the Company to produce quarterly financial statements because the management contracts do not require the hotel operators to submit actual results within a time frame that permits the Company to use actual results when preparing its Quarterly Reports on Form 10-Q for filing by the deadline prescribed by the SEC. Generally, the Company records actual revenue and expense amounts for the first two months of each quarter and estimated revenue and expense amounts for the last

month of each quarter. Each quarter, the Company reviews the estimated revenue and expense amounts provided by the hotel operators for reasonableness based upon historical results for prior periods and internal Company forecasts. The Company records any differences between recorded estimated amounts and actual amounts in the following quarter; historically, these differences have not been material. The Company believes the quarterly revenues and expenses, recorded on the Company's consolidated statements of operations and comprehensive income (loss) based on an aggregate estimate, are fairly stated.

The Company's management has discussed the policy of using estimated hotel operating revenues and expenses with the Audit Committee of its Board of Trustees. The Audit Committee has reviewed the Company's disclosure relating to the estimates in this "Management's Discussion and Analysis of Financial Conditions and Results of Operations" section.

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See “Critical Accounting Policies” in the “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 for other critical accounting policies and estimates of the Company.

Comparison of the Three Months Ended September 30, 2017 to the Three Months Ended September 30, 2016

The economic environment was positive during the third quarter. Industry demand increased during the third quarter of 2017 and outpaced supply growth. As a result, industry-wide pricing was moderate. With respect to the Company’s hotels, excluding its two resorts located in Key West, occupancy remained flat during the three months ended September 30, 2017 and ADR was down 3.6%, which resulted in a RevPAR decline of 3.6% year-over-year.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, decreased \$41.9 million from \$325.4 million in 2016 to \$283.5 million in 2017. This decrease is primarily due to the sale of the 2016 and 2017 hotel dispositions, which consist of the sales of Indianapolis Marriott Downtown, Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia (collectively, the “2016 and 2017 Disposition Properties”). The 2016 and 2017 Disposition Properties, which are not comparable year-over-year, contributed \$29.3 million to the decrease in hotel operating revenues, mostly attributable to the Lansdowne Resort and Westin Philadelphia. Additionally, three of the Company’s markets experienced significant decreases in hotel operating revenues. The six San Francisco hotel properties had a combined \$3.4 million decrease primarily due to the Moscone Convention Center’s expansion project, which resulted in lower ADR and RevPAR throughout the market; the nine Washington, DC hotel properties had a combined \$2.3 million decrease primarily due to weaker demand in 2017; and lastly, the two Key West hotel properties experienced a decrease of \$3.6 million primarily due to the impact of Hurricane Irma.

The following hotels also contributed to the decrease in hotel operating revenues due to decline in group business:

\$1.5 million decrease from Westin Copley Place;

\$1.5 million decrease from Westin Michigan Avenue; and

\$1.1 million decrease from Embassy Suites Philadelphia - Center City, mostly due to the Democratic National Convention held in the third quarter of 2016 in Philadelphia.

These decreases are partially offset by a \$0.9 million increase at San Diego Paradise Point Resort and Spa and \$0.8 million increase at The Hilton San Diego Resort and Spa as a result of increased group business and city wide events. Hotel operating revenues across the remainder of the portfolio remained relatively constant, decreasing a net \$0.9 million across the 19 additional hotels in the portfolio.

Other Income

Other income increased \$0.8 million from \$1.6 million in 2016 to \$2.4 million in 2017 primarily due to increased insurance gains from insurance proceeds related to minor property damage at various properties. No insurance proceeds were recognized related to Hurricane Irma damage during the quarter. The Company anticipates filing a claim for lost revenue under its business interruption coverage, which will be recorded when the recovery is probable and the claim is settled.

Hotel Operating Expenses

Hotel operating expenses decreased a net \$21.8 million from \$186.9 million in 2016 to \$165.1 million in 2017. This overall decrease is primarily due to the results of the 2016 and 2017 Disposition Properties, which are not comparable year-over-year. These properties contributed \$17.3 million to the decrease in hotel operating expenses, mostly attributable to the Lansdowne Resort and Westin Philadelphia. Additionally, three of the Company’s markets, San Francisco, Key West and Washington, DC had decreases of \$1.9 million, \$1.2 million and \$0.9 million, respectively, that correspond to the lower revenue in each market. Approximately \$0.3 million of clean up and repair costs are

included in hotel operating expenses for the Key West properties.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, decreasing a net \$0.5 million across the 24 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense decreased \$4.6 million from \$48.0 million in 2016 to \$43.4 million in 2017.

Depreciation and amortization expense attributable to the 2016 and 2017 Disposition Properties, which are not comparable year-

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over-year, decreased \$4.3 million. Depreciation and amortization expense across the remainder of the portfolio remained constant, decreasing a net \$0.3 million throughout the portfolio.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased \$2.8 million from \$13.9 million in 2016 to \$16.7 million in 2017. Of the increase, \$1.5 million is the result of credits which the Company received as part of the expense proration process for the Indianapolis Marriott Downtown disposition in 2016. Additionally, a real estate tax true up recognized in 2016 at a Chicago hotel property resulted in a net increase in 2017 of \$1.4 million. Real estate taxes and personal property taxes increased by \$0.7 million across the remaining hotels in the portfolio primarily due to increased property values or tax rates at certain properties. The increases are partially offset by a combined \$0.8 million decrease from the five remaining 2016 and 2017 Disposition Properties. Insurance expense remained constant throughout the portfolio.

Ground Rent

Ground rent increased \$0.2 million from \$4.6 million in 2016 to \$4.8 million in 2017 primarily due to a \$0.2 million true-up for credits previously utilized at a San Diego property. Ground rent at the other subject properties remained relatively constant. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense increased \$0.4 million from \$6.1 million in 2016 to \$6.5 million in 2017 primarily due to \$0.4 million increase in compensation costs in 2017.

Other Expenses

Other expenses increased \$2.2 million from \$1.0 million in 2016 to \$3.2 million in 2017. Of the \$2.2 million increase, \$2.0 million was attributable to estimated clean up and repair costs related to Hurricane Irma for the two Key West hotel properties, which brings the total estimated clean up and repair costs recognized and recorded in the third quarter of 2017 to \$2.3 million. The Company's current estimate of costs to clean up and repair is in the range of \$2.0 million to \$2.75 million. Based on a review of the Company's property insurance policies, the insurance deductible for property damage is approximately \$3.7 million, which is the Company's estimated maximum exposure for the loss. The remaining \$0.2 million net increase is primarily due to losses from property damage, which are largely covered by insurance proceeds slightly offset by lower management transition expenses, severance and pre-opening costs.

Interest Income

Interest income increased \$0.8 million from \$0.2 million in 2016 to \$1.0 million in 2017 as a result of interest earned on invested funds, which were partially offset by the sale of the Company's junior mezzanine loan (the "Mezzanine Loan"), which was secured by pledges of equity interests in the entities that own Shutters on the Beach and Casa Del Mar, in July 2016.

Interest Expense

Interest expense decreased \$0.3 million from \$10.3 million in 2016 to \$10.0 million in 2017 due to a decrease in the Company's weighted average debt outstanding, partially offset by an increase in the weighted average interest rate. The Company's weighted average debt outstanding decreased from \$1.21 billion in 2016 to \$1.15 billion in 2017 primarily due to the repayment of all borrowings outstanding on the Company's senior unsecured credit facility in 2016 with proceeds from the sale of the Indianapolis Marriott Downtown in July 2016 and the sale of the Mezzanine Loan in July 2016. This decrease is also due to the sale of Hotel Triton in April 2017 which was subject to a capital lease obligation.

The Company's weighted average interest rate, including the effect of capitalized interest, increased from 3.01% in 2016 to 3.12% in 2017. This increase is due in part to a decrease in the Company's borrowings on its senior unsecured

credit facility, which had a weighted average interest rate of 2.17% for the quarter ended September 30, 2016. This increase is also attributable to an increase in the Westin Copley Place's mortgage loan variable rate from a weighted average interest rate of 2.25% for the quarter ended September 30, 2016 to 2.97% for the quarter ended September 30, 2017. Additionally, this increase is attributable to an increase in the fixed all-in interest rate for the First Term Loan (as defined below) due to the Company entering into new interest rate swap agreements in August 2017 to replace the maturing interest rate swap agreements entered into to hedge the variable interest rate on the First Term Loan. The weighted average interest rates for the First Term Loan were 2.38% and 2.88% for the

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quarters ended September 30, 2016 and 2017, respectively. Interest capitalized on renovations increased \$0.1 million from \$0.1 million in 2016 to \$0.2 million in 2017.

Income Tax Expense

Income tax expense decreased \$1.1 million from \$3.1 million in 2016 to \$2.0 million in 2017. This decrease is primarily the result of a decrease in LHL's net income before income tax expense of \$3.0 million from \$6.8 million in 2016 to \$3.8 million in 2017 and a minimal impact of the finalization and related adjustments of the 2016 federal and state tax returns during the 2017 period. For the quarter ended September 30, 2017, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 39.2%.

Net Gain on Sale of Properties and Sale of Note Receivable

The gain on sale of property was an immaterial amount in 2017 and relates to the actualization of the gain on sale of Westin Philadelphia, which was sold on June 29, 2017. The net gain on sale of property and sale of note receivable was \$104.5 million in 2016 which consists of a \$104.8 million gain relating to the sale of Indianapolis Marriott Downtown on July 14, 2016, partially offset by \$0.3 million of costs associated with the sale of the Company's Mezzanine Loan on July 8, 2016.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At September 30, 2017, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders decreased \$1.3 million from \$5.4 million in 2016 to \$4.1 million in 2017 due to decreased distribution on the 7.5% Series H Cumulative Redeemable Preferred Shares (the "Series H Preferred Shares"), which were redeemed on May 4, 2017.

Comparison of the Nine Months Ended September 30, 2017 to the Nine Months Ended September 30, 2016

Industry travel was stronger during the nine months ended September 30, 2017, compared to the same prior year period. Industry demand grew at a faster rate than industry supply grew, which kept industry occupancy at a high level, and led to moderate pricing power and ADR growth during the period. With respect to the Company's hotels, excluding its two resorts located in Key West for the third quarter only, occupancy was lower by 0.4% during the nine months ended September 30, 2017 and ADR decreased 1.1%, which resulted in a RevPAR decline of 1.5% year-over-year.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, decreased \$94.2 million from \$932.5 million in 2016 to \$838.3 million in 2017. This decrease is primarily due to the sale of the 2016 and 2017 Disposition Properties, which are not comparable year-over-year, and contributed \$76.3 million to the decrease in hotel operating revenues, mostly attributable to the Indianapolis Marriott Downtown and Lansdowne Resort. Additionally, two of the Company's markets experienced significant decreases in hotel operating revenues. The six San Francisco hotel properties had a combined \$17.6 million decrease primarily due to the Moscone Convention Center's expansion project, which resulted in lower ADR and RevPAR throughout the market; and the two Key West hotel properties experienced a decrease of \$3.8 million of which \$3.6 million was primarily due to the impact of Hurricane Irma in the third quarter of 2017. A decrease of \$1.6 million from Park Central Hotel New York and

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WestHouse Hotel New York further contributed to the overall decrease, which was primarily due to new supply year-over-year in the market.

The following hotels also contributed to the decrease in hotel operating revenues due to decline in group business:

\$3.0 million decrease from Westin Michigan Avenue;

\$1.8 million decrease from Westin Copley Place; and

\$1.3 million decrease from Embassy Suites Philadelphia - Center City, mostly due to the Democratic National Convention held in the third quarter of 2016 in Philadelphia.

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These decreases are partially offset by a \$6.8 million increase at the Company's nine properties located in Washington, DC as a result of the 2017 Presidential Inauguration and the completion of the Mason & Rook Hotel renovation, slightly offset by a weaker third quarter in the market.

The Liberty Hotel, San Diego Paradise Point Resort and Spa and The Hilton San Diego Resort and Spa experienced significant increases in total room, food and beverage and other operating department revenues. The Liberty Hotel had an increase of \$1.9 million as a result of the completion of the hotel renovation. Increased group business and city wide events resulted in \$2.3 million and \$1.9 million increases at the San Diego Paradise Point Resort and Spa and The Hilton San Diego Resort and Spa, respectively.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, decreasing a net \$1.7 million across the 16 additional hotels in the portfolio.

Other Income

Other income increased \$3.4 million from \$5.6 million in 2016 to \$9.0 million in 2017 primarily due to increased insurance gains from insurance proceeds related to minor property damage at various properties and higher retail lease income. No insurance proceeds were recognized related to Hurricane Irma damage during the third quarter. The Company anticipates filing a claim for lost revenue under its business interruption coverage, which will be recorded when the recovery is probable and the claim is settled.

Hotel Operating Expenses

Hotel operating expenses decreased a net \$50.4 million from \$552.0 million in 2016 to \$501.6 million in 2017. This overall decrease is primarily due to \$44.7 million decrease from the 2016 and 2017 Disposition Properties, which are not comparable year-over-year, again, mostly attributable to the Indianapolis Marriott Downtown and the Lansdowne Resort. Additionally, two of the Company's markets, San Francisco and Key West had decreases of \$9.2 million and \$1.2 million, respectively, that correspond to the lower revenue in each market. Approximately \$0.3 million of estimated clean up and repair costs are included in hotel operating expenses for the Key West properties.

These decreases are partially offset by a combined \$2.8 million increase at the Company's nine properties located in Washington, DC as a result of the 2017 Presidential Inauguration and the completion of the Mason & Rook Hotel renovation.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$1.9 million across the 24 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense decreased \$9.8 million from \$144.5 million in 2016 to \$134.7 million in 2017. Depreciation and amortization expense attributable to the 2016 and 2017 Disposition Properties, which are not comparable year-over-year, decreased \$10.7 million. This decrease was partially offset by a net \$0.9 million increase across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses decreased \$0.1 million from \$47.0 million in 2016 to \$46.9 million in 2017. This decrease is primarily due to a net \$1.0 million decrease attributable to the 2016 and 2017 Disposition Properties, which are not comparable year-over-year, and a \$1.3 million decrease in real estate taxes from a property in San Francisco as a result of an assessment finalization. These decreases are partially offset by a true up recognized in 2016 at a Chicago hotel property which resulted in a net increase of \$1.1 million. Real estate taxes and personal property taxes increased by \$1.2 million across the remaining hotels in the portfolio primarily due to increased property values or tax rates at certain properties, and decreased real estate taxes capitalized as part of renovations. Insurance expense also remained relatively constant, decreasing by \$0.1 million reflecting slightly lower

premiums throughout the portfolio.

Ground Rent

Ground rent decreased \$0.5 million from \$12.5 million in 2016 to \$12.0 million in 2017 primarily due to a \$0.4 million net credit received at a San Diego property as a result of an operational audit. Ground rent at the other subject properties remained relatively constant, decreasing \$0.1 million. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

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General and Administrative

General and administrative expense increased \$0.4 million from \$19.5 million in 2016 and \$19.9 million in 2017. A \$1.6 million charge associated with the departure of the Company's former Chief Financial Officer in 2016 is offset by a combined \$2.0 million increase in compensation costs and professional fees in 2017.

Other Expenses

Other expenses increased \$1.2 million from \$5.5 million in 2016 to \$6.7 million in 2017 primarily due to a net increase of \$3.3 million in loss from property damage. Of the \$3.3 million increase, \$2.0 million was attributable to estimated clean up and repair costs related to Hurricane Irma for the two key West hotel properties, which brings the total estimated clean up and repair costs recognized and recorded in the third quarter of 2017 to \$2.3 million. The Company's current estimate of costs to clean up and repair is in the range of \$2.0 million to \$2.75 million. Based on a review of the Company's property insurance policies, the insurance deductible for property damage is approximately \$3.7 million, which is the Company's estimated maximum exposure for the loss. The remaining \$1.3 million increase in loss from property damage relates to various properties and is largely covered by insurance proceeds. In addition, miscellaneous other expenses and retail lease expense increased a combined \$0.4 million. These increases are partially offset by a \$2.5 million decrease in management transition expenses, severance and pre-opening expenses, which are mostly attributable to the grand opening of the Mason & Rook Hotel in 2016.

Interest Income

Interest income decreased \$2.1 million from \$3.5 million in 2016 to \$1.4 million in 2017 as a result of the sale of the Company's Mezzanine Loan, which was secured by pledges of equity interests in the entities that own Shutters on the Beach and Casa Del Mar, in July 2016, which was partially offset by interest earned on invested funds.

Interest Expense

Interest expense decreased \$4.4 million from \$33.7 million in 2016 to \$29.3 million in 2017 due to a decrease in the Company's weighted average debt outstanding, partially offset by an increase in the weighted average interest rate. The Company's weighted average debt outstanding decreased from \$1.40 billion in 2016 to \$1.16 billion in 2017 due to paydowns on the unsecured credit facilities with net proceeds from the following:

the issuance of the 6.3% Series J Cumulative Redeemable Preferred Shares (the "Series J Preferred Shares") in May 2016;

the sale of Indianapolis Marriott Downtown in July 2016;

the sale of the Mezzanine Loan in July 2016; and

positive operating results from the hotel properties.

The Company's weighted average interest rate, including the effect of capitalized interest, increased from 2.86% in 2016 to 3.03% in 2017. This increase is due in part to a decrease in the Company's borrowings on its senior unsecured credit facility, which had a weighted average interest rate of 2.14% for the nine months ended September 30, 2016.

This increase is also attributable to an increase in the Westin Copley Place's mortgage loan variable rate from a weighted average interest rate of 2.20% for the nine months ended September 30, 2016 to 2.76% for the nine months ended September 30, 2017. Interest capitalized on renovations increased \$0.1 million from \$0.3 million in 2016 to \$0.4 million in 2017.

Loss from Extinguishment of Debt

Loss from extinguishment of debt of \$1.7 million in 2017 relates to the January 10, 2017 refinancing of the Company's senior unsecured credit facility and First Term Loan, which were considered substantial modifications. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Income Tax Expense

Income tax expense decreased \$2.9 million from \$5.1 million in 2016 to \$2.2 million in 2017. This decrease is primarily the result of an decrease in LHL's net income before income tax expense of \$6.9 million from \$10.1 million in 2016 to \$3.2 million in 2017 and a minimal impact of the finalization and related adjustments of the 2016 federal and state tax returns during the 2017 period. For the nine months ended September 30, 2017, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 39.2%.

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Net Gain on Sale of Properties and Sale of Note Receivable

The gain on sale of properties was \$85.5 million in 2017, which consists of a \$30.7 million gain relating to the sale of Hotel Deca on January 19, 2017, a \$10.3 million gain relating to the sale of Lansdowne Resort on March 22, 2017, a \$33.4 million gain relating to the sale of Alexis Hotel on March 31, 2017, a \$6.7 million gain relating to the sale of Hotel Triton on April 11, 2017 and a \$4.4 million gain relating to the sale of Westin Philadelphia on June 29, 2017. The net gain on sale of property and sale of note receivable was \$104.5 million in 2016 which consists of a \$104.8 million gain relating to the sale of Indianapolis Marriott Downtown on July 14, 2016, partially offset by \$0.3 million of costs associated with the sale of the Company's Mezzanine Loan on July 8, 2016.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities represent the allocation of income or loss to the outside preferred ownership interests in a subsidiary and the outside ownership interest in a joint venture.

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At September 30, 2017, third party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders increased \$1.1 million from \$12.8 million in 2016 to \$13.9 million in 2017 due to increased distributions on the Series J Preferred Shares, which were issued on May 25, 2016, partially offset by decreased distributions on the Series H Preferred Shares, which were redeemed on May 4, 2017.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of \$2.4 million in 2017 represent the offering costs related to the Series H Preferred Shares, which were redeemed on May 4, 2017. The excess of fair value over carrying value (i.e. offering costs) is included in the determination of net income attributable to common shareholders.

Non-GAAP Financial Measures

FFO and EBITDA

The Company considers the non-GAAP measures of FFO and EBITDA to be key supplemental measures of the Company's performance and should be considered along with, but not as alternatives to, net income or loss as a measure of the Company's operating performance. 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 real estate industry investors consider FFO and EBITDA to be helpful in evaluating a real estate company's operations.

The White Paper on FFO approved by the National Association of Real Estate Investment Trusts ("NAREIT") in April 2002, as revised in 2011, defines FFO as net income or loss (computed in accordance with GAAP), excluding gains or losses from sales of properties and items classified by GAAP as extraordinary, plus real estate-related depreciation and amortization and impairment writedowns, and after comparable adjustments for the Company's portion of these items related to unconsolidated entities and joint ventures. The Company computes FFO consistent with standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company.

With respect to FFO, the Company believes that excluding the effect of extraordinary items, real estate-related depreciation and amortization and impairments, and the portion of these items related to unconsolidated entities, all of which are based on historical cost accounting and which may be of limited significance in evaluating current

performance, can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. However, FFO may not be helpful when comparing the Company to non-REITs.

With respect to EBITDA, the Company believes that excluding the effect of non-operating expenses and non-cash charges, and the portion of these items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and amortization, and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrues directly to common shareholders.

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FFO and EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO and EBITDA are not measures of the Company's liquidity, nor are FFO and EBITDA indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been or will be incurred. FFO and EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments and uncertainties. To compensate for this, management considers the impact of these excluded items to the extent they are material to operating decisions or the evaluation of the Company's operating performance.

The following is a reconciliation between net income and FFO and FFO attributable to common shareholders and unitholders for the three and nine months ended September 30, 2017 and 2016 (in thousands, except share and unit data):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$35,272	\$ 157,678	\$ 179,272	\$ 226,372
Depreciation	43,205	47,888	134,264	144,088
Amortization of deferred lease costs	104	82	274	244
Less: Gain on sale of properties less costs associated with sale of note receivable	(31)	(104,549)	(85,545)	(104,549)
FFO	\$78,550	\$ 101,099	\$ 228,265	\$ 266,155
Distributions to preferred shareholders	(4,116)	(5,405)	(13,908)	(12,802)
Issuance costs of redeemed preferred shares	0	0	(2,401)	0
FFO attributable to common shareholders and unitholders	\$74,434	\$ 95,694	\$ 211,956	\$ 253,353
Weighted average number of common shares and units outstanding:				
Basic	113,152,698	129,956,626	113,106,588	129,926,955
Diluted	113,528,583	133,305,067	113,488,934	133,284,120

The following is a reconciliation between net income and EBITDA for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$35,272	\$ 157,678	\$ 179,272	\$ 226,372
Interest expense	10,026	10,332	29,276	33,681
Income tax expense	1,978	3,109	2,208	5,099
Depreciation and amortization	43,355	48,022	134,684	144,491
EBITDA ⁽¹⁾	\$90,631	\$ 219,141	\$ 345,440	\$ 409,643

(1)EBITDA includes the gain on sale of Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia of \$30.7 million, \$10.3 million, \$33.4 million, \$6.7 million and \$4.4 million for the nine months ended September 30, 2017, respectively. EBITDA includes the gain on sale of Indianapolis Marriott Downtown of \$104.8 million for the three and nine months ended September 30, 2016, offset by \$0.3 million for the three and nine months

ended September 30, 2016 related to costs associated with the sale of the Mezzanine Loan.

Off-Balance Sheet Arrangements

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (i) certain non-routine repairs and maintenance to the hotels and (ii) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of September 30, 2017, the Company held a total of \$14.7 million of restricted cash reserves, \$12.9 million of which was available for future capital expenditures. The Company has sufficient cash on hand and

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availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

The Company has no other off-balance sheet arrangements.

Liquidity and Capital Resources

The Company's principal source of cash to meet its cash requirements, including distributions to shareholders, is the operating cash flow from the Company's hotels. Additional sources of cash are the Company's senior unsecured credit facility, LHL's unsecured credit facility, additional unsecured financing, secured financing on one or all of the Company's 39 unencumbered properties (subject to certain terms and conditions of the credit agreement) as of September 30, 2017, the sale of one or more properties (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership.

LHL is a wholly owned subsidiary of the Operating Partnership. Payments to the Operating Partnership are required pursuant to the terms of the lease agreements between LHL and the Operating Partnership relating to the properties owned by the Operating Partnership and leased by LHL. LHL's ability to make rent payments to the Operating Partnership and the Company's liquidity, including its ability to make distributions to shareholders, are dependent on the lessees' ability to generate sufficient cash flow from the operation of the hotels.

Debt Summary

Debt as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

Debt	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2017	December 31, 2016
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2021 ^(a)	\$0	\$0
LHL unsecured credit facility	Floating ^(b)	January 2021 ^(b)	0	0
Total borrowings under credit facilities			0	0
Term loans				
First Term Loan	Floating/Fixed ^(c)	January 2022	300,000	300,000
Second Term Loan	Floating/Fixed ^(c)	January 2021	555,000	555,000
Debt issuance costs, net			(1,951)	(2,242)
Total term loans, net of unamortized debt issuance costs			853,049	852,758
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(16)	(45)
Total bonds payable, net of unamortized debt issuance costs			42,484	42,455
Mortgage loan				
Westin Copley Place	Floating ^(e)	August 2018 ^(e)	225,000	225,000
Debt issuance costs, net			(800)	(1,506)
Total mortgage loan, net of unamortized debt issuance costs			224,200	223,494
Total debt			\$1,119,733	\$1,118,707

^(a) 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 credit agreement) plus an applicable margin. There were no

borrowings outstanding at September 30, 2017 and December 31, 2016. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

- (b) Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at September 30, 2017 and December 31, 2016. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions.

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Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan (as defined below) and the Second Term Loan (as defined below). At September 30, 2017 and December 31, 2016, the Company had interest rate swaps on the full amounts outstanding. See “Derivative and Hedging Activities” below. At September 30, 2017, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 3.23% and 2.95%, respectively, at the Company’s current leverage ratio (as defined in the swap agreements). At December 31, 2016, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 2.38% and 2.95%, respectively, at the Company’s current leverage ratio (as defined in the swap agreements).

The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association and the letters of credit are secured by the Hyatt Regency Boston Harbor. In August 2017, the Company exercised its final extension option to extend the letters of credit through March 1, 2018, the Massport Bonds’ maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of September 30, 2017 were 1.19% and 0.98% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2016 were 0.75% and 0.76% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place’s net cash flow (as defined in the loan agreement). The interest rate as of September 30, 2017 was LIBOR plus 1.75%, which equaled 2.99%.

The interest rate as of December 31, 2016 was LIBOR plus 1.75%, which equaled 2.46%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

A summary of the Company’s interest expense and weighted average interest rates for unswapped variable rate debt for the three and nine months ended September 30, 2017 and 2016 is as follows (in thousands):

	For the three months ended September 30, 2017		For the nine months ended September 30, 2016	
Interest Expense:				
Interest incurred	\$9,561	\$9,552	\$27,553	\$31,421
Amortization of debt issuance costs	669	841	2,098	2,554
Capitalized interest	(204)	(61)	(375)	(294)
Interest expense	\$10,026	\$10,332	\$29,276	\$33,681

Weighted Average Interest Rates for Unswapped

Variable Rate Debt:

Senior unsecured credit facility	N/A	2.17	%	N/A	2.14	%
LHL unsecured credit facility	N/A	N/A		N/A	2.13	%
Massport Bonds	0.95	%	0.55	%	0.84	%
Mortgage loan (Westin Copley Place)	2.97	%	2.25	%	2.76	%

Credit Facilities

On January 10, 2017, the Company refinanced its \$750.0 million senior unsecured credit facility with a syndicate of banks. As amended, the credit facility now matures on January 8, 2021, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of \$750.0 million, includes an accordion feature which, subject to

certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$1.25 billion. Borrowings under the credit facility 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 credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

On January 10, 2017, LHL also refinanced its \$25.0 million unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. As amended, the LHL credit facility matures on January 10, 2021, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the LHL unsecured credit facility.

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The Company's senior unsecured credit facility and LHL's unsecured credit facility contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's senior unsecured credit facility. While the senior unsecured credit facility does not initially include any pledges of equity interests in the Company's subsidiaries, in connection with the January 10, 2017 refinancing, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Term Loans

On January 10, 2017, the Company refinanced its \$300.0 million unsecured term loan (the "First Term Loan") that matures on January 10, 2022. The First Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$500.0 million. The First Term Loan bears interest at variable rates.

On January 10, 2017, the Company amended and restated its \$555.0 million unsecured term loan (the "Second Term Loan") that matures on January 29, 2021. The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$700.0 million. The Second Term Loan bears interest at variable rates.

The Company has entered into interest rate swap agreements to effectively fix the LIBOR rates for the term loans (see "Derivative and Hedging Activities" below).

The Company's term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's term loans. While the term loans do not initially include any pledges of equity interests in the Company's subsidiaries, in connection with the January 10, 2017 refinancing, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCI") related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on

the Company's variable rate debt. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300.0 million to hedge the variable interest rate on the First Term Loan through August 2, 2017. Effective August 2, 2017, the Company entered into six new interest rate swap agreements with an aggregate notional amount of \$300.0 million to hedge the variable interest rate on the First Term Loan through January 10, 2022, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 3.23% at September 30, 2017. As of September 30, 2017, the Company has interest rate swaps with an aggregate notional amount of \$555.0 million to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate swaps with an aggregate notional amount of \$377.5 million to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company

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has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following tables present the effect of derivative instruments on the Company's consolidated statements of operations and comprehensive income, including the location and amount of unrealized gain (loss) on outstanding derivative instruments in cash flow hedging relationships, for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Amount of Gain Recognized in OCI on Derivative Instruments (Effective Portion) For the three months ended September 30, 2017	2016	Location of Loss Reclassified from AOCI into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Net Income (Effective Portion) For the three months ended September 30, 2017	2016
Derivatives in cash flow hedging relationships:					
Interest rate swaps	\$517	\$3,172	Interest expense	\$547	\$1,637
	Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion) For the nine months ended September 30, 2017	2016	Location of Loss Reclassified from AOCI into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Net Income (Effective Portion) For the nine months ended September 30, 2017	2016

Derivatives in cash flow hedging relationships:

Interest rate swaps	\$(34)	\$(17,051)	Interest expense	\$2,030	\$5,147
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During the nine months ended September 30, 2017 and 2016, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of September 30, 2017, there was \$4.4 million in cumulative unrealized gain of which \$4.4 million was included in AOCI and an immaterial amount was attributable to noncontrolling interests. As of December 31, 2016, there was \$2.4 million in cumulative unrealized gain of which \$2.4 million was included in AOCI and an immaterial amount was attributable to noncontrolling interests. The Company expects that approximately \$3.1 million will be reclassified from AOCI and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of September 30, 2017.

Extinguishment of Debt

As discussed above, on January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of zero and \$1.7 million, which is included in the consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017, respectively. The loss from extinguishment of debt represents a portion of the unamortized debt issuance costs incurred for the senior unsecured credit facility when the original agreement was executed and the debt issuance costs incurred in connection with the refinancing of the First Term Loan.

Mortgage Loan

The Company's mortgage loan is secured by the property. The mortgage is non-recourse to the Company except for fraud or misapplication of funds.

The Company's mortgage loan contains debt service coverage ratio tests related to the mortgaged property. If the debt service coverage ratio for the property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows will be directed to the lender

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(“cash trap”) until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

Financial Covenants

Failure of the Company to comply with financial and other covenants contained in its credit facilities, term loans and non-recourse secured mortgage could result from, among other things, changes in its results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of its credit facilities or term loans described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms, including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company’s cash flow, and, consequently, cash available for distribution to its shareholders.

A cash trap associated with a mortgage loan may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of September 30, 2017, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable and mortgage loan.

Fair Value Measurements

In evaluating fair value, GAAP outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and a reporting entity’s own assumptions about market data (unobservable inputs). The hierarchy ranks the quality and reliability of inputs used to determine fair value, which are then classified and disclosed in one of the three categories. The three levels are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2—Observable inputs, other than quoted prices included in level 1, such as interest rates, yield curves, quoted prices in active markets for similar assets and liabilities, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Unobservable inputs that are supported by limited market activity. This includes certain pricing models, discounted cash flow methodologies and similar techniques when observable inputs are not available.

The Company estimates the fair value of its financial instruments using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and subjectivity are involved in developing these estimates and, accordingly, such estimates are not necessarily indicative of amounts that would be realized upon disposition.

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Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows (in thousands):

Description	Consolidated Balance Sheet Location	Fair Value Measurements at	
		September 30, 2017	December 31, 2016
Derivative interest rate instruments	Prepaid expenses and other assets	\$4,364	\$ 3,295
Derivative interest rate instruments	Accounts payable and accrued expenses	\$0	\$ 927

Using Significant Other Observable Inputs (Level 2)

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Borrowings under credit facilities	\$0	\$0	\$0	\$0
Term loans	\$855,000	\$856,173	\$855,000	\$857,224
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loan	\$225,000	\$224,163	\$225,000	\$225,224

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loan using interest rates ranging from 1.5% to 2.3% as of September 30, 2017 and from 1.5% and 1.8% as of December 31, 2016 with a weighted average effective interest rate of 1.6% and 1.5% as of September 30, 2017 and December 31, 2016, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At September 30, 2017 and December 31, 2016, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

Equity Repurchases and Redemptions

The Company's Board of Trustees previously authorized an expanded share repurchase program (the "Repurchase Program") to acquire up to \$600.0 million of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of September 30, 2017, the Company has availability under the Repurchase Program to acquire up to \$569.8 million of common shares of beneficial interest. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

On May 4, 2017, the Company redeemed all of the outstanding Series H Preferred Shares for \$68.8 million (\$25.00 per share) plus \$0.3 million of accrued and unpaid dividends through the redemption date. The redemption value of the Series H Preferred Shares exceeded their carrying value by \$2.4 million, which is included in the determination of net income attributable

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to common shareholders for the nine months ended September 30, 2017. The \$2.4 million represents the offering costs related to the redeemed Series H Preferred Shares.

Sources and Uses of Cash

As of September 30, 2017, the Company had \$444.3 million of cash and cash equivalents and \$14.7 million of restricted cash reserves, \$12.9 million of which was available for future capital expenditures. Additionally, the Company had \$747.6 million available under the Company's senior unsecured credit facility, with \$2.4 million reserved for outstanding letters of credit, and \$25.0 million available under LHL's unsecured credit facility.

Net cash provided by operating activities was \$219.5 million for the nine months ended September 30, 2017 primarily due to the operations of the hotels, which were partially offset by payments for real estate taxes, personal property taxes, insurance and ground rent.

Net cash provided by investing activities was \$336.7 million for the nine months ended September 30, 2017 primarily due to proceeds from the sale of Hotel Deca, Lansdowne Resort, Alexis Hotel, Hotel Triton and Westin Philadelphia, partially offset by outflows for improvements and additions at the hotels.

Net cash used in financing activities was \$246.6 million for the nine months ended September 30, 2017 primarily due to payment of distributions to the common shareholders and unitholders, payment for the redemption of preferred shares, payment of distributions to preferred shareholders and payment of debt issuance costs.

The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements, distributions on the preferred shares and the minimum distribution required to maintain the Company's REIT qualification under the Code. The Company anticipates that these needs will be met with available cash on hand, cash flows provided by operating activities, borrowings under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 39 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company also considers capital improvements and property acquisitions as short-term needs that will be funded either with cash flows provided by operating activities, utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 39 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties) or the issuance of additional equity securities.

The Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 39 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), estimated cash flows from operations, debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company expects to acquire or develop additional hotel properties only as suitable opportunities arise, and the Company will not undertake acquisition or development of properties unless stringent acquisition or development criteria have been achieved.

Reserve Funds

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the operating agreements. Please refer to “Off-Balance Sheet Arrangements” for a discussion of the Company’s reserve funds.

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Contractual Obligations

The following is a summary of the Company's obligations and commitments as of September 30, 2017 (in thousands):

Obligations and Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Mortgage loan	\$225,000	\$225,000	\$ 0	\$ 0	\$ 0
Mortgage loan interest ⁽¹⁾	6,485	6,485	0	0	0
Borrowings under credit facilities	0	0	0	0	0
Credit facilities interest ⁽²⁾	0	0	0	0	0
Capital and operating leases ⁽³⁾	536,609	11,414	23,049	23,739	478,407
Massport Bonds	42,500	42,500	0	0	0
Massport Bonds interest ⁽²⁾	177	177	0	0	0
Term loans	855,000	0	0	855,000	0
Term loans interest ⁽⁴⁾	96,606	26,438	52,303	17,865	0
Purchase commitments ⁽⁵⁾					
Purchase orders and letters of commitment	65,865	65,865	0	0	0
Total obligations and commitments	\$1,828,242	\$377,879	\$ 75,352	\$ 896,604	\$ 478,407

⁽¹⁾ Interest expense is calculated based on the variable rate as of September 30, 2017 for Westin Copley Place.

⁽²⁾ Interest expense, if applicable, is calculated based on the variable rate as of September 30, 2017.

⁽³⁾ Amounts calculated based on the annual minimum future lease payments that extend through the term of the lease. Rents on ground leases may be subject to adjustments based on future interest rates and hotel performance.

The term loans bear interest at floating rates equal to LIBOR plus applicable margins. The Company entered into separate interest rate swap agreements for the First Term Loan, resulting in a fixed all-in interest rate of 3.23%, at the Company's current leverage ratio (as defined in the agreements) through January 10, 2022, the First Term Loan's maturity date. The Company entered into separate interest rate swap agreements for the Second Term Loan, resulting in a fixed all-in interest rate of 2.95% at the Company's current leverage ratio (as defined in the agreements). The \$377.5 million portion of the Second Term Loan is fixed through its maturity date of January 29, 2021 and the \$177.5 million portion of the Second Term Loan is fixed through May 16, 2019, the interest rate swaps' maturity date. It is assumed that the outstanding debt as of September 30, 2017 will be repaid upon maturity with fixed interest-only payments through the swapped periods and interest calculated based on the variable rate as of September 30, 2017 for the unswapped period of the Second Term Loan.

As of September 30, 2017, purchase orders and letters of commitment totaling approximately \$65.9 million had ⁽⁵⁾ been issued for renovations at the properties. The Company has committed to these projects and anticipates making similar arrangements in the future with the existing properties or any future properties that it may acquire.

The Hotels

The following table sets forth pro forma historical comparative information with respect to occupancy, ADR and RevPAR for the total hotel portfolio owned as of September 30, 2017 for the three and nine months ended September 30, 2017 and 2016:

	For the three months ended			For the nine months ended			
	September 30,			September 30,			
	2017	2016	Variance	2017	2016	Variance	
Occupancy	90.2	% 90.2	% 0.0	%	85.3	% 85.7	% (0.4 %)

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ADR	\$243.31	\$252.32	(3.6 %)	\$244.35	\$247.16	(1.1 %)
RevPAR	\$219.38	\$227.69	(3.6 %)	\$208.52	\$211.70	(1.5 %)

For presentation of comparable information, the above hotel statistics exclude (i) Hotel Triton and Westin Philadelphia due to their dispositions during the second quarter of 2017, (ii) Hotel Deca, Lansdowne Resort and Alexis Hotel due to their dispositions during the first quarter of 2017 and (iii) Indianapolis Marriott Downtown due to its disposition in July 2016. For the three and nine months ended September 30, 2017 and 2016, the above hotel statistics exclude third quarter results for The Marker Waterfront Resort and Southernmost Beach Resort Key West due to their closure during Hurricane Irma in early September 2017 and for a period following the storm due to subsequent building repairs and clean up. In addition, for the nine months ended September 30, 2017 and 2016, the above hotel statistics exclude first quarter results for Mason & Rook Hotel due to the hotel's closure for renovation during the first quarter of 2016.

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Inflation

The Company relies entirely on the performance of the hotels and their ability to increase revenues to keep pace with inflation. The hotel operators can change room rates quickly, but competitive pressures may limit the hotel operators' abilities to raise rates faster than inflation or even at the same rate.

The Company's expenses (primarily real estate taxes, property and casualty insurance, administrative expenses and hotel operating expenses) are subject to inflation. These expenses are expected to grow at the general rate of inflation, except for energy costs, liability insurance, property taxes (due to increased rates and periodic reassessments), employee benefits and some wages, which are expected to increase at rates higher than inflation.

Seasonality

The Company's hotels' operations historically have been seasonal. Taken together, the hotels maintain higher occupancy rates during the second and third quarters of each year. These seasonality patterns can be expected to cause fluctuations in the quarterly hotel operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from changes in interest rates. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring the Company's variable rate debt and converting such debt to fixed rates when the Company deems such conversion advantageous. From time to time, the Company 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 the Company to the risks that the other parties to the agreements will not perform, the Company 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 GAAP guidance. As of September 30, 2017, \$267.5 million of the Company's aggregate indebtedness (23.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the First Term Loan and Second Term Loan since the Company hedged their variable interest rates to fixed interest rates.

If market rates of interest on the Company's variable rate long-term debt fluctuate by 0.25%, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows by \$0.7 million annually. This assumes that the amount outstanding under the Company's variable rate debt remains at \$267.5 million, the balance as of September 30, 2017.

Item 4. Controls and Procedures

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of September 30, 2017. There were no changes to the Company's internal control over financial reporting during the third quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, 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 the liquidity, results of operations, business or financial condition of the Company.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	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)
July 1, 2017 - July 31, 2017	20,849	\$ 29.80	—	\$—
August 1, 2017 - August 31, 2017	19,204	\$ 28.11	—	\$—
September 1, 2017 - September 30, 2017	—	\$—	—	\$—
Total	40,053	\$ 28.99	—	\$569,807,000

(1) Reflects shares surrendered to the Company for payment of tax withholding obligations in connection with the vesting of restricted shares. The average price paid reflects the average market value of shares withheld for tax purposes.

(2) On August 29, 2011, the Company announced its Board of Trustees had authorized the Repurchase Program to acquire up to \$100.0 million of the Company's common shares of beneficial interest. On February 22, 2017, the Company announced the Board of Trustees authorized an expansion of the Repurchase Program to acquire up to an additional \$500.0 million of the Company's common shares of beneficial interest. The Company cumulatively repurchased \$30.2 million of common shares of beneficial interest pursuant to the Repurchase Program through September 30, 2017. As of September 30, 2017, the Company had availability under the Repurchase Program to acquire up to \$569.8 million of common shares of beneficial interest. The authorization did not include specific price targets or an expiration date. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit
Number Description of Exhibit

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

32.1 Certification of Chief Executive Officer and 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 The following financial statements from LaSalle Hotel Properties' Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed on October 19, 2017, formatted in XBRL: (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

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SIGNATURE

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

LASALLE HOTEL PROPERTIES

Date: October 19, 2017 BY: /s/ KENNETH G. FULLER

Kenneth G. Fuller

Executive Vice President

and Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)