Chatham Lodging Trust
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34693

CHATHAM LODGING TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-1200777
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

222 Lakeview Avenue, Suite 200	
West Palm Beach, Florida	33401
(Address of Principal Executive Offices)	(Zip Code)

(561) 802-4477
(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. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

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

Class	Outstanding at October 31, 2018
Common Shares of Beneficial Interest ($0.01 par value per share)	46,516,275

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
CHATHAM LODGING TRUST
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets:		
Investment in hotel properties, net	$ 1,328,560	$ 1,320,082
Cash and cash equivalents	10,270	9,333
Restricted cash	28,383	27,166
Investment in unconsolidated real estate entities	22,542	24,389
Hotel receivables (net of allowance for doubtful accounts of $249 and $200, respectively)	6,418	4,047
Deferred costs, net	5,126	4,646
Prepaid expenses and other assets	3,757	2,523
Deferred tax asset, net	30	30
Total assets	$ 1,405,086	$ 1,392,216
Liabilities and Equity:		
Mortgage debt, net	$ 502,950	$ 506,316
Revolving credit facility	30,000	32,000
Accounts payable and accrued expenses	36,358	31,692
Distributions and losses in excess of investments of unconsolidated real estate entities	8,022	6,582
Distributions payable	5,578	5,846
Total liabilities	582,908	582,436
Commitments and contingencies (Note 12)		
Equity:		
Shareholders’ Equity:		
Preferred shares, $0.01 par value, 100,000,000 shares authorized and unissued at September 30, 2018 and December 31, 2017	—	—
Common shares, $0.01 par value, 500,000,000 shares authorized; 46,514,186 and 45,375,266 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	465	450
Additional paid-in capital	896,156	871,730
Retained earnings (distributions in excess of retained earnings)	(83,758)	(69,018)
Total shareholders’ equity	812,863	803,162
Noncontrolling Interests:		
Noncontrolling interest in Operating Partnership	9,315	6,618
Total equity	822,178	809,780
Total liabilities and equity	$ 1,405,086	$ 1,392,216

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

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CHATHAM LODGING TRUST
Consolidated Statements of Operations
(In thousands, except share and per share data)
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
Room	$ 81,457	$ 76,221	$225,983	$213,415
Food and beverage	2,274	1,378	6,584	4,353
Other	3,731	3,052	10,285	8,465
Cost reimbursements from unconsolidated real estate entities	2,764	2,302	7,679	7,198
Total revenue	90,226	82,953	250,531	233,431
Expenses:				
Hotel operating expenses:				
Room	17,261	15,618	47,759	44,147
Food and beverage	1,870	1,307	5,350	3,770
Telephone	442	410	1,316	1,205
Other hotel operating	886	737	2,403	2,047
General and administrative	6,498	5,906	19,318	17,534
Franchise and marketing fees	6,863	6,366	18,962	17,758
Advertising and promotions	1,627	1,353	4,677	3,955
Utilities	3,064	2,708	8,209	7,431
Repairs and maintenance	3,783	3,467	11,043	9,898
Management fees	2,915	2,693	8,158	7,511
Insurance	340	297	1,012	925
Total hotel operating expenses	45,549	40,862	128,207	116,181
Depreciation and amortization	11,963	10,944	35,920	34,662
Impairment loss	—	—	—	6,663
Property taxes, ground rent and insurance	5,919	5,349	17,874	15,710
General and administrative	3,649	3,151	10,818	9,706
Other charges	7	(15)	256	—
Reimbursed costs from unconsolidated real estate entities	2,764	2,302	7,679	7,198
Total operating expenses	69,851	62,593	200,754	190,120
Operating income	20,375	20,360	49,777	43,311
Interest and other income	335	9	352	27
Interest expense, including amortization of deferred fees	(6,708)	(7,065)	(20,005)	(20,830)
Loss on sale of hotel property	—	—	(18)	—
Income from unconsolidated real estate entities	689	1,189	938	2,031
Income before income tax expense	14,691	14,493	31,044	24,539
Income tax expense	—	—	—	(317)
Net income	14,691	14,493	31,044	24,222
Net income attributable to noncontrolling interests	(111)	(101)	(231)	(167)
Net income attributable to common shareholders	$ 14,580	$ 14,392	$30,813	$24,055
Income per Common Share - Basic:				
Net income attributable to common shareholders (Note 9)	$ 0.31	$ 0.36	$0.67	$0.62
Income per Common Share - Diluted:				

Net income attributable to common shareholders (Note 9)	$ 0.31	$ 0.36	$0.66	$0.61
Weighted average number of common shares outstanding:				
Basic	46,149,765	39,298,974	45,925,178	38,731,900
Diluted	46,384,969	39,550,494	46,078,558	38,960,455
Distributions declared per common share:	$ 0.33	$ 0.33	$0.99	$0.99

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

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CHATHAM LODGING TRUST
Consolidated Statements of Equity
(In thousands, except share and per share data)
(unaudited)

	Common Shares						
	Shares	Amount	Additional Paid - In Capital	Retained earnings (distributions in excess of retained earnings)	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
Balance, January 1, 2017	38,367,014	$ 380	$ 722,019	$ (45,657)	$ 676,742	$ 4,848	$ 681,590
Issuance of shares pursuant to Equity Incentive Plan	23,980	—	500	—	500	—	500
Issuance of shares, net of offering costs of $812	1,443,482	15	28,909	—	28,924	—	28,924
Issuance of restricted time-based shares	5,000	—	—	—	—	—	—
Amortization of share based compensation	—	—	619	—	619	1,791	2,410
Dividends declared on common shares ($0.99 per share)	—	—	—	(38,495)	(38,495)	—	(38,495)
Distributions declared on LTIP units ($0.99 per unit)	—	—	—	—	—	(721)	(721)
Reallocation of noncontrolling interest	—	—	101	—	101	(101)	—
Net income	—	—	—	24,055	24,055	167	24,222
Balance, September 30, 2017	39,839,476	$ 395	$ 752,148	$ (60,097)	$ 692,446	$ 5,984	$ 698,430
Balance, January 1, 2018	45,375,266	$ 450	$ 871,730	$ (69,018)	$ 803,162	$ 6,618	$ 809,780
Issuance of shares pursuant to Equity Incentive Plan	21,670	—	500	—	500	—	500
Issuance of shares, net of offering costs of $515	1,117,250	15	23,832	—	23,847	—	23,847
Amortization of share based compensation	—	—	94	—	94	2,692	2,786
Dividends declared on common shares ($0.99 per share)	—	—	—	(45,553)	(45,553)	—	(45,553)
Distributions declared on LTIP units ($0.99 per unit)	—	—	—	—	—	(878)	(878)
Forfeited distributions declared on LTIP units	—	—	—	—	—	652	652
Reallocation of noncontrolling interest	—	—	—	—	—	—	—
Net income	—	—	—	30,813	30,813	231	31,044
Balance, September 30, 2018	46,514,186	$ 465	$ 896,156	$ (83,758)	$ 812,863	$ 9,315	$ 822,178

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

CHATHAM LODGING TRUST
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the nine months ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 31,044	$ 24,222
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,744	34,501
Amortization of deferred franchise fees	176	161
Amortization of deferred financing fees included in interest expense	680	394
Impairment loss	—	6,663
Share based compensation	3,162	2,785
Income from unconsolidated real estate entities	(938)	(2,031)
Distributions from unconsolidated entities	354	—
Changes in assets and liabilities:		
Hotel receivables	(2,368)	(3,285)
Deferred tax asset	—	426
Deferred costs	(109)	(878)
Prepaid expenses and other assets	(1,262)	(1,596)
Accounts payable and accrued expenses	4,948	5,246
Net cash provided by operating activities	71,431	66,608
Cash flows from investing activities:		
Improvements and additions to hotel properties	(23,309)	(21,524)
Acquisition of hotel properties, net of cash acquired	(21,046)	(49,864)
Distributions from unconsolidated entities	3,871	2,001
Investment in unconsolidated real estate entities	—	(5,037)
Net cash used in investing activities	(40,484)	(74,424)

Cash flows from financing activities:						
Borrowings on revolving credit facility	83,000			82,000		
Repayments on revolving credit facility	(85,000		)	(59,500		)
Payments on mortgage debt	(3,638		)	(3,094		)
Payment of financing costs	(954		)	—		
Payment of offering costs	(515		)	(812		)
Proceeds from issuance of common shares	24,361			29,736		
Distributions-common shares/units	(46,047		)	(38,740		)
Net cash used in financing activities	(28,793		)	9,590		
Net change in cash, cash equivalents and restricted cash	2,154			1,774		
Cash, cash equivalents and restricted cash, beginning of period	36,499			37,201		
Cash, cash equivalents and restricted cash, end of period	$	38,653		$	38,975	
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	18,897		$	19,878	
Cash paid for income taxes	$	856		$	684	

-continued-

Supplemental disclosure of non-cash investing and financing information:

On January 16, 2018, the Company issued 21,670 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2017. On January 16, 2017, the Company issued 23,980 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2016.

As of September 30, 2018, the Company had accrued distributions payable of $5,578. These distributions were paid on October 26, 2018, except for $395 related to accrued but unpaid distributions on unvested performance based shares and LTIP units. As of September 30, 2017, the Company had accrued distributions payable of $5,217. These distributions were paid on October 27, 2017, except for $783 related to accrued but unpaid distributions on unvested performance based shares.

Accrued share based compensation of $375 and $433 is included in accounts payable and accrued expenses as of September 30, 2018 and 2017, respectively.

Accrued capital improvements of $2,172 and $1,797 are included in accounts payable and accrued expenses as of September 30, 2018 and 2017, respectively.

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

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CHATHAM LODGING TRUST
Notes to the Consolidated Financial Statements
(in thousands, except share and per share data, unless otherwise specified)
(unaudited)

1. Organization

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust (“REIT”) on October 26, 2009. The Company is internally-managed and invests primarily in upscale extended-stay and premium-branded select-service hotels.

In January 2014, the Company established an At the Market Equity Offering ("Prior ATM Plan") whereby, from time to time, we may publicly offer and sell up to $50 million of our common shares by means of ordinary brokers’ transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, with Cantor Fitzgerald & Co. ("Cantor") acting as sales agent. On January 13, 2015, the Company entered into a sales agreement with Barclays Capital Inc. (“Barclays”) to add Barclays as an additional sales agent under the Company’s Prior ATM Plan. The Company filed a $100 million registration statement for a new ATM program (the "ATM Plan" and together with the Prior ATM Plan, the "ATM Plans") on December 28, 2017 to replace the prior program. At the same time, the Company entered into sales agreements with Cantor, Barclays, Robert W. Baird & Co. Incorporated, ("Baird"), Citigroup Global Markets Inc. ("Citigroup"), Stifel, Nicolaus & Company, Incorporated ("Stifel") and Wells Fargo Securities, LLC ("Wells Fargo") as sales agents. During the three months ended September 30, 2018, we issued 350,845 shares under the ATM Plan at a weighted average price of $21.55, which generated $7.6 million of gross proceeds. As of September 30, 2018, we had issued 2,498,540 shares under the ATM Plans at an average price of $21.83. As of September 30, 2018, there was approximately $92.4 million available for issuance under the ATM Plan.

In January 2014, the Company established a $25 million dividend reinvestment and stock purchase plan (the "Prior DRSPP"). We filed a new $50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "New DRSPP" and together with the Prior DRSPP, the "DRSPPs") on December 28, 2017 to replace the prior program. Under the DRSPPs, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectus for the DRSPPs. During the three months ended September 30, 2018, we issued 286,529 shares under the New DRSPP at a weighted average price of $21.35, which generated $6.1 million of gross proceeds. As of September 30, 2018, we had issued 1,501,710 shares under the DRSPPs at an average price of $21.61. As of September 30, 2018, there was approximately $33.2 million available for issuance under the New DRSPP.

The net proceeds from any share offerings or issuances are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership ("LTIP units"), which are presented as non-controlling interests on our consolidated balance sheets.

As of September 30, 2018, the Company wholly owned 41 hotels with an aggregate of 6,116 rooms located in 15 states and the District of Columbia. As of September 30, 2018, the Company also (i) held a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with affiliates of Colony Capital, Inc. ("CLNY"), which was formed in the second quarter of 2014 and acquired 47 hotels comprising an aggregate of 6,098 rooms from a joint venture (the "Innkeepers JV") between the Company and Cerberus Capital Management ("Cerberus") and (ii) held a 10% noncontrolling interest in a separate joint venture (the "Inland JV") with affiliates of CLNY, which was formed in the fourth quarter of 2014 and acquired 48 hotels from Inland American Real Estate Trust, Inc. ("Inland"), comprising an aggregate of 6,402 rooms. We sometimes refer to the NewINK JV and Inland JV collectively as the ("JVs").

To qualify as a REIT, the Company cannot operate the hotels. Therefore, the Operating Partnership and its subsidiaries lease the Company's wholly owned hotels to taxable REIT subsidiary lessees ("TRS Lessees"), which are wholly owned by the Company's taxable REIT subsidiary ("TRS") holding company. The Company indirectly (i) owns its 10.3% interest in all of the 47 NewINK JV hotels and (ii) owns its 10% interest in all of the 48 Inland JV hotels through the Operating Partnership. All of the NewINK JV hotels and Inland JV hotels are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through its TRS holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

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The TRS Lessees have entered into management agreements with third-party management companies that provide day-to-day management for the hotels. As of September 30, 2018, Island Hospitality Management LLC (“IHM”), which is 51% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed all 41 of the Company’s wholly owned hotels. As of September 30, 2018, all of the NewINK JV hotels were managed by IHM. As of September 30, 2018, 34 of the Inland JV hotels were managed by IHM and 14 of the Inland JV hotels were managed by Marriott International, Inc. ("Marriott").

2. Summary of Significant Accounting Policies

Basis of Presentation

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. These unaudited consolidated financial statements, in the opinion of management, include all adjustments consisting of normal, recurring adjustments which are considered necessary for a fair statement of the consolidated balance sheets, consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full year performance due to seasonal and other factors, including the timing of the acquisition of hotels.

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements prepared in accordance with GAAP, and the related notes thereto as of December 31, 2017, which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

Recently Adopted Accounting Policies

On January 1, 2018, the Company adopted accounting guidance under Accounting Standards Codification (ASU) Topic 2014-09, "Revenue from Contracts with Customers" on a modified retrospective basis. Our current revenue streams are not affected under the new model and we did not recognize a cumulative effect adjustment as part of the modified retrospective method of adoption. Furthermore, the new accounting guidance will not materially impact the recognition of or the accounting for disposition of hotels, since we primarily dispose of hotels to third parties in exchange for cash with few contingencies. As it relates to capitalization of costs to acquire customer contracts, the Company has elected to use the Financial Accounting Standards Board's ("FASB") practical expedient which allows us to expense costs to acquire customer contracts as they are incurred due to their short-term nature for a specified number of nights that never exceed one year. This guidance applies to all contracts as of the adoption date. The Company has applied all relevant disclosures of this standard.

On January 1, 2018, the Company adopted accounting guidance under ASU 2016-15 ("ASU 2016-15"), Classification of Certain Cash Receipts and Cash Payments, which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. The Company has certain cash payments and receipts related to debt extinguishment that will be affected by the new standard. The company has historically classified distributions received from equity method investments under the cumulative earnings approach. As such, there was no impact due to application of the new guidance. The Company has applied the new guidance on a retrospective basis.

On January 1, 2018, the Company adopted accounting guidance under ASU 2016-18 ("ASU 2016-18"), Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This standard addresses presentation of restricted cash in the consolidated statements of cash flows only. Restricted cash represents purchase price deposits held in escrow for potential hotel acquisitions under contract and escrow reserves such as reserves for capital expenditures, property taxes or insurance that are required pursuant to the Company's loans. The Company has applied the new guidance on a retrospective basis.

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Recently Issued Accounting Standards

On February 25, 2016, the FASB issued ASU 2016-02 (“ASU 2016-02”), Leases, which relates to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. The Company is the lessee on certain air/land rights arrangements and an office lease and expects to record right of use assets and lease liabilities for these leases under the new standard. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. The Company expects to use FASB's practical expedient which provides the Company the option to apply the new guidance at its effective date (January 1, 2019) without having to adjust the 2018 and 2017 comparative financial statements. The Company is evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

3. Acquisition of Hotel Properties

Hotel Purchase Price Allocation

We acquired the Residence Inn Summerville ("RI Summerville") hotel in Summerville, SC for $20.8 million on August 27, 2018. The allocation of the purchase price, based on the fair value on the date of its acquisition, was (in thousands):

	RI Summerville
Acquisition date	8/27/2018
Number of Rooms	96
Land	$ 2,300
Building and improvements	16,954
Furniture, fixtures and equipment	1,440
Accounts payable and accrued expenses	(54)
Net assets acquired, net of cash	$ 20,640

The value of the assets acquired was primarily based on a sales comparison approach (for land) and a depreciated replacement cost approach (for building and improvements and furniture, fixtures and equipment). The sales comparison approach uses inputs of recent land sales in the respective hotel markets. The depreciated replacement cost approach uses inputs of both direct and indirect replacement costs using a nationally recognized authority on replacement cost information as well as the age, square footage and number of rooms of the respective assets.

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The amount of revenue and operating income from the hotels acquired in 2018 and 2017 from their respective dates of acquisition through September 30, 2018 is as follows (in thousands):

		For the three months ended September 30,				For the nine months ended September 30,			
		2018		2017		2018		2017	
	Acquisition Date	Revenue	Operating Income	Revenue	Operating Income	Revenue	Operating Income	Revenue	Operating Income
Hilton Garden Inn Portsmouth, NH	09/20/2017	$3,075	$1,174	$392	$ 241	$6,826	$1,724	$392	$ 241
Courtyard Summerville, SC	11/15/2017	978	147	—	—	3,079	672	—	—
Embassy Suites Springfield, VA	12/06/2017	3,472	720	—	—	10,803	2,518	—	—
Residence Inn Summerville, SC	08/27/2018	186	(147)	—	—	186	(182)	—	—
Total		$7,711	$1,894	$392	$ 241	$20,894	$4,732	$392	$ 241

4. Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb estimated probable losses. That estimate is based on past loss experience, current economic and market conditions and other relevant factors. The allowance for doubtful accounts was $0.2 million and $0.2 million as of September 30, 2018 and December 31, 2017, respectively.

5. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Land and improvements	$293,353	$291,054
Building and improvements	1,167,482	1,140,477
Furniture, fixtures and equipment	67,583	63,443
Renovations in progress	24,007	13,262
	1,552,425	1,508,236
Less: accumulated depreciation	(223,865)	(188,154)
Investment in hotel properties, net	$1,328,560	$1,320,082

During the year ended December 31, 2017, the Company identified indicators of impairment at its Washington PA SHS hotel, primarily due to decreased operating performance and continued economic weakness. As such, the Company was required to perform a test of recoverability. This test compared the sum of the estimated future undiscounted cash flow attributable to the hotel over its remaining anticipated holding period and its expected value upon disposition to our carrying value for the hotel. The Company determined that the estimated undiscounted future cash flow attributable to the hotel did not exceed its carrying value and an impairment existed. As a result, the Company recorded a $6.7 million impairment charge in the consolidated statements of operations during the year ended December 31, 2017. Fair value was determined based on a discounted cash flow model using our estimates of future cash flows and third-party market data, which we considered Level 3 inputs. We may record additional impairment charges if operating results of this hotel are materially different from our forecasts, the economy and lodging industry weakens, or we shorten our contemplated holding period. There were no impairments recorded in

2018.

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6. Investment in Unconsolidated Entities

On June 9, 2014, the Company acquired a 10.3% interest in the NewINK JV, a joint venture between affiliates of NorthStar Realty Finance Corp. ("NorthStar") and the Operating Partnership. The Company accounts for this investment under the equity method. NorthStar merged with Colony Capital, Inc. ("Colony") on January 10, 2017 to form a new company, CLNY, which owns a 89.7% interest in the NewINK JV. The values of NewINK JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar. As of September 30, 2018 and 2017, the Company's share of partners' capital in the NewINK JV was approximately \$49.4 million and \$52.8 million, respectively, and the total difference between the carrying amount of investment and the Company's share of partners' capital was approximately \$57.4 million and \$58.7 million, respectively, (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the NewINK JV. During the three and nine months ended September 30, 2018 and 2017, the Company received cash distributions from the NewINK JV as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cash generated from other activities and excess cash	$1,182	$1,182	$2,775	$1,901
Total	$1,182	$1,182	$2,775	$1,901

On November 17, 2014, the Company acquired a 10.0% interest in the Inland JV, a joint venture between affiliates of NorthStar and the Operating Partnership. The Company accounts for this investment under the equity method. NorthStar merged with Colony Capital, Inc. ("Colony") on January 10, 2017 to form a new company, CLNY, which owns a 90.0% interest in the Inland JV. The values of Inland JV assets and liabilities were adjusted to reflect estimated fair market value at the time Colony merged with NorthStar. As of September 30, 2018 and 2017, the Company's share of partners' capital in the Inland JV was approximately \$33.3 million and \$36.6 million, respectively, and the total difference between the carrying amount of the investment and the Company's share of partners' capital was approximately \$10.8 million and \$11.2 million, respectively (for which the basis difference related to amortizing assets is being recognized over the life of the related assets as a basis difference adjustment). The Company serves as managing member of the Inland JV. During the three and nine months ended September 30, 2018 and 2017, the Company received cash distributions from the Inland JV as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cash generated from other activities and excess cash	$200	$100	1,450	$100
Total	$200	$100	1,450	$100

On May 9, 2017, the NewINK JV refinanced the \$840.0 million loan collateralized by the 47 hotels with a new \$850.0 million loan. The new non-recourse loan is with Morgan Stanley Bank, N.A. The new loan bears interest at a rate of LIBOR plus a spread of 2.79%, has an initial maturity date of June 7, 2019 and three one-year extension options.

On June 9, 2017, the Inland JV refinanced the $817.0 million loan collateralized by the 48 hotels with a new $780.0 million non-recourse loan with Column Financial, Inc. On June 9, 2017, the Company contributed an additional $5.0 million of capital related to its share in the Inland JV to reduce the debt collateralized by the 48 hotels. The new loan bears interest at a rate of LIBOR plus a spread of 3.3%, has an initial maturity date of July 9, 2019 and three one-year extension options.

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The Company’s ownership interests in the JVs are subject to change in the event that either the Company or CLNY calls for additional capital contributions to the respective JVs necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. In connection with (i) the non-recourse mortgage loan secured by the NewINK JV properties and the related non-recourse mezzanine loan secured by the membership interests in the owners of the NewINK JV properties and (ii) the non-recourse mortgage loan secured by the Inland JV properties, the Operating Partnership provided the applicable lenders with customary environmental indemnities, as well as guarantees of certain customary non-recourse carve-out provisions such as fraud, material and intentional misrepresentations and misapplication of funds. In some circumstances, such as the bankruptcy of the applicable borrowers, the guarantees are for the full amount of the outstanding debt, but in most circumstances, the guarantees are capped at 15% of the debt outstanding at the time in question (in the case of the NewINK JV loans) or 20% of the debt outstanding at the time in question (in the case of the Inland JV loans). In connection with each of the NewINK JV and Inland JV loans, the Operating Partnership has entered into a contribution agreement with its JV partner whereby the JV partner is, in most cases, responsible to cover such JV partner’s pro rata share of any amounts due by the Operating Partnership under the applicable guarantees and environmental indemnities. The Company manages the JVs and will receive a promote interest in each applicable JV if it meets certain return thresholds for such JV. CLNY may also approve certain actions by the JVs without the Company’s consent, including certain property dispositions conducted at arm’s length, certain actions related to the restructuring of the applicable JV and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the applicable joint venture agreement.

The Company's investments in the NewINK JV and the Inland JV were $(8.0) million and $22.5 million, respectively, at September 30, 2018 and $(6.6) million and $24.4 million, respectively, at December 31, 2017. The following table sets forth the combined components of net income, including the Company’s allocable share, related to all JVs for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue	$136,087	$134,048	$381,150	$372,813
Total hotel operating expenses	86,638	78,107	248,298	221,366
Operating income	$49,449	$55,941	$132,852	$151,447
Net income (loss) from continuing operations	$2,790	$7,721	$(2,681)	$8,282
Net income (loss)	$2,790	$7,721	$(2,681)	$8,282
Income (loss) allocable to the Company	$290	$790	$(259)	$855
Basis difference adjustment	399	399	1,197	1,176
Total income from unconsolidated real estate entities attributable to the Company	$689	$1,189	$938	$2,031

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7. Debt

The Company’s mortgage loans are collateralized by first-mortgage liens on certain of the Company’s properties. The mortgage loans are non-recourse except for instances of fraud or misapplication of funds. Mortgage and senior unsecured revolving credit facility debt consisted of the following (dollars in thousands):

Collateral	Interest Rate	Maturity Date	9/30/18 Property Carrying Value	Balance Outstanding on Loan as of September 30, 2018	December 31, 2017
Senior Unsecured Revolving Credit Facility [1]	4.15 %	March 8, 2022	$—	$30,000	$ 32,000
Residence Inn by Marriott New Rochelle, NY	5.75 %	September 1, 2021	18,591	13,464	13,762
Residence Inn by Marriott San Diego, CA	4.66 %	February 6, 2023	46,280	28,034	28,469
Homewood Suites by Hilton San Antonio, TX	4.59 %	February 6, 2023	31,404	16,002	16,253
Residence Inn by Marriott Vienna, VA	4.49 %	February 6, 2023	30,552	21,902	22,251
Courtyard by Marriott Houston, TX	4.19 %	May 6, 2023	31,797	18,078	18,375
Hyatt Place Pittsburgh, PA	4.65 %	July 6, 2023	35,834	22,104	22,437
Residence Inn by Marriott Bellevue, WA	4.97 %	December 6, 2023	66,225	44,881	45,462
Residence Inn by Marriott Garden Grove, CA	4.79 %	April 6, 2024	37,614	32,758	33,160
Residence Inn by Marriott Silicon Valley I, CA	4.64 %	July 1, 2024	80,195	64,800	64,800
Residence Inn by Marriott Silicon Valley II, CA	4.64 %	July 1, 2024	84,794	70,700	70,700
Residence Inn by Marriott San Mateo, CA	4.64 %	July 1, 2024	61,519	48,600	48,600
Residence Inn by Marriott Mountain View, CA	4.64 %	July 6, 2024	56,269	37,900	37,900
SpringHill Suites by Marriott Savannah, GA	4.62 %	July 6, 2024	35,898	30,000	30,000
Hilton Garden Inn Marina del Rey, CA	4.68 %	July 6, 2024	40,929	21,459	21,760
Homewood Suites by Hilton Billerica, MA	4.32 %	December 6, 2024	15,006	16,031	16,225
Hampton Inn & Suites Houston Medical Center, TX	4.25 %	January 6, 2025	14,751	18,102	18,300
Total debt before unamortized debt issue costs			$687,658	$534,815	$ 540,454
Unamortized mortgage debt issue costs				(1,865)	(2,138)
Total debt outstanding				$532,950	$ 538,316

(1) The interest rate for the senior unsecured revolving credit facility is variable and based on either LIBOR plus an applicable margin ranging from 1.55% to 2.3%, or prime plus an applicable margin of 0.55% to 1.3%.

At September 30, 2018 and December 31, 2017, the Company had $30.0 million and $32.0 million, respectively, of outstanding borrowings under its senior unsecured revolving credit facility. At September 30, 2018, the maximum borrowing availability under the senior unsecured revolving credit facility was $250.0 million.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. All of the Company's mortgage loans are fixed-rate. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. The estimated fair value of the Company’s fixed rate debt as of September 30, 2018 and December 31, 2017 was $489.4 million and $506.6 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. As of September 30, 2018, the Company’s only variable rate debt is under its senior unsecured revolving credit facility. The estimated fair value of the Company’s variable rate debt as of September 30, 2018 and December 31, 2017 was $30.0 million and $32.0 million, respectively.

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As of September 30, 2018, the Company was in compliance with all of its financial covenants. At September 30, 2018, the Company's consolidated fixed charge coverage ratio was 3.3 and the credit facility covenant is 1.5. Future scheduled principal payments of debt obligations as of September 30, 2018, for the current year and each of the next four calendar years and thereafter are as follows (in thousands):

	Amount
2018 (remaining three months)	$1,402
2019	6,992
2020	9,536
2021	21,945
2022	39,954
2023	142,508
Thereafter	312,478
Total debt before unamortized debt issue costs	$534,815
Unamortized mortgage debt issue costs	(1,865)
Total debt outstanding	$532,950

8. Income Taxes

The Company's TRS is subject to federal and state income taxes.
The components of income tax expense for the following periods are as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Federal	$ —	$ —	$ —	$ 271
State	—	—	—	46
Tax expense (benefit)	$ —	$ —	$ —	$ 317

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. The Company's TRS is expecting increased taxable losses in 2018. As of September 30, 2018, the TRS continues to recognize a full valuation allowance equal to 100% of the gross deferred tax assets, with the exception of the AMT tax credit, due to the uncertainty of the TRS's ability to utilize these deferred tax assets. Management will continue to monitor the need for a valuation allowance.

During the third quarter of 2018, the Company was notified that the tax return of the Company's TRS was going to be examined by the Internal Revenue Service for the tax year ended December 31, 2016. The examination remains open. The Company believes it does not need to record a liability related to matters contained in the tax period open to examination. However, should the Company experience an unfavorable outcome in the matter, such outcome could have a material impact on its results of operations, financial position and cash flows.

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9. Dividends Declared and Paid

The Company declared total common share dividends of $0.33 per share and distributions on LTIP units of $0.33 per unit for the three months ended September 30, 2018 and $0.99 per share and distributions on LTIP units of $0.99 per unit for the nine months ended September 30, 2018. The dividends and distributions were as follows:

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount
January	1/31/2018	2/23/2018	$ 0.11	$ 0.11
February	2/28/2018	3/30/2018	0.11	0.11
March	3/29/2018	4/27/2018	0.11	0.11
1st Quarter 2018			$ 0.33	$ 0.33
April	4/30/2018	5/25/2018	$ 0.11	$ 0.11
May	5/31/2018	6/29/2018	0.11	0.11
June	6/29/2018	7/27/2018	0.11	$ 0.11
2nd Quarter 2018			$ 0.33	$ 0.33
July	7/31/2018	8/31/2018	$ 0.11	$ 0.11
August	8/31/2018	9/28/2018	0.11	0.11
September	9/28/2018	10/26/2018	0.11	0.11
3rd Quarter 2018			$ 0.33	$ 0.33
Total 2018			$ 0.99	$ 0.99

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10. Earnings Per Share

The two-class method is used to determine earnings per share because unvested restricted shares and unvested LTIP units are considered to be participating shares. The LTIP units held by the non-controlling interest holders, which may be converted to common shares of beneficial interest, have been excluded from the denominator of the diluted earnings per share calculation as there would be no effect on the amounts since limited partners' share of income or loss would also be added back to net income or loss. Unvested restricted shares, unvested long-term incentive plan units and unvested Class A Performance LTIP units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented. The following is a reconciliation of the amounts used in calculating basic and diluted net income per share (in thousands, except share and per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to common shareholders	$14,580	$14,392	$30,813	$24,055
Dividends paid on unvested shares and units	(81)	(64)	(229)	(171)
Net income attributable to common shareholders	$14,499	$14,328	$30,584	$23,884
Denominator:				
Weighted average number of common shares - basic	46,149,765	39,298,974	45,925,178	38,731,900
Unvested shares	235,204	251,520	153,380	228,555
Weighted average number of common shares - diluted	46,384,969	39,550,494	46,078,558	38,960,455
Basic income per Common Share:				
Net income attributable to common shareholders per weighted average basic common share	$0.31	$0.36	$0.67	$0.62
Diluted income per Common Share:				
Net income attributable to common shareholders per weighted average diluted common share	$0.31	$0.36	$0.66	$0.61

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11. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. The plan was amended and restated as of May 17, 2013 to increase the maximum number of shares available under the plan to 3,000,000 shares. Share awards under this plan generally vest over three years, though compensation for the Company’s independent trustees includes share grants that vest immediately. The Company pays dividends on unvested shares and units, except for performance based shares and outperformance based units, for which dividends on unvested performance based shares and units are not paid until those shares or units vest. Certain awards may provide for accelerated vesting if there is a change in control. In January 2018 and 2017, the Company issued 21,670 and 23,980 common shares, respectively, to its independent trustees as compensation for services performed in 2017 and 2016, respectively. As of September 30, 2018, there were 1,405,529 common shares available for issuance under the Equity Incentive Plan.

Restricted Share Awards

From time to time, the Company may award restricted shares under the Equity Incentive Plan as compensation to officers, employees and non-employee trustees. The Company recognizes compensation expense for the restricted shares on a straight-line basis over the vesting period based on the fair market value of the shares on the date of issuance.

A summary of the Company’s restricted share awards for the nine months ended September 30, 2018 and the year ended December 31, 2017 is as follows:

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
	Number of Shares	Weighted - Average Grant Date Fair Value	Number of Shares	Weighted - Average Grant Date Fair Value
Non-vested at beginning of the period	57,514	$ 23.78	110,825	$ 22.05
Granted	—	—	5,000	20.20
Vested	(30,084)	26.24	(32,441)	25.77
Forfeited	(24,096)	21.21	(25,870)	13.17
Non-vested at end of the period	3,334	$ 20.20	57,514	$ 23.78

As of September 30, 2018 and December 31, 2017, there were $43.1 thousand and $0.1 million, respectively, of unrecognized compensation costs related to restricted share awards. As of September 30, 2018, these costs were expected to be recognized over a weighted–average period of approximately 1.3 years. For the three months ended September 30, 2018 and 2017, the Company recognized approximately $8.4 thousand and $0.2 million, respectively, and for the nine months ended September 30, 2018 and 2017, the Company recognized approximately $0.1 million and $0.4 million, respectively, of expense related to the restricted share awards.

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Long-Term Incentive Plan Awards

LTIP units are a special class of partnership interests in the Operating Partnership which may be issued to eligible participants for the performance of services to or for the benefit of the Company. Under the Equity Incentive Plan, each LTIP unit issued is deemed equivalent to an award of one common share thereby reducing the number of shares available for other equity awards on a one-for-one basis.

A summary of the Company's LTIP Unit awards for the nine months ended September 30, 2018 and the year ended December 31, 2017 is as follows:

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
	Number of Units	Weighted - Average Grant Date Fair Value	Number of Units	Weighted - Average Grant Date Fair Value
Non-vested at beginning of the period	482,056	$ 16.58	295,551	$ 14.36
Granted	244,917	16.94		