Chesapeake Lodging Trust
Form 10-K
February 22, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-34572

CHESAPEAKE LODGING TRUST
(Exact name of registrant as specified in its charter)

MARYLAND	27-0372343
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1997 Annapolis Exchange Parkway, Suite 410, Annapolis, Maryland 21401
(Address and zip code of principal executive offices)
(410) 972-4140
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange On Which Registered
Common Shares of Beneficial Interest, $.01 par value	New York Stock Exchange
Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

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

As of June 30, 2016, the aggregate market value of the registrant’s common shares held by non-affiliates of the registrant was approximately $1,342,407,000 based on the closing price reported on the New York Stock Exchange.

As of February 17, 2017, there were 60,094,371 shares of the registrant’s common shares issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain portions of the Registrant’s proxy statement for its 2017 annual meeting of shareholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this report.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words, such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estima “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” and similar expressions, whether in the negative or affirmative. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include those discussed in “Business,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this Form 10-K. These risks and uncertainties should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law.

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PART I

Item 1. Business

Overview

Chesapeake Lodging Trust (the “Trust”) is a self-advised real estate investment trust ("REIT") that was organized in the state of Maryland in June 2009. We are focused on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the United States of America (“U.S.”). We completed our initial public offering (“IPO”) in January 2010 and own 22 hotels as of the date of this filing.

Substantially all of our assets are held by, and all of our operations are conducted through, Chesapeake Lodging, L.P., our operating partnership (the “Operating Partnership”). In order for us to qualify as a REIT, neither the Trust nor the Operating Partnership can operate hotels directly. Therefore, the Operating Partnership leases its hotels to taxable REIT subsidiaries (each, a “TRS”), which are wholly owned subsidiaries of the Operating Partnership and are treated as TRSs for federal income tax purposes. The TRSs then engage hotel management companies to operate the hotels pursuant to management agreements.

Our corporate office is located at 1997 Annapolis Exchange Parkway, Suite 410, Annapolis, Maryland 21401. Our telephone number is (410) 972-4140.

Industry and Trust Background

Historically, the lodging industry in the U.S. has been cyclical in nature. Lodging industry performance is a function of lodging demand and supply and generally, correlates with macroeconomic conditions. Fluctuations in lodging demand are caused largely by general economic and local market conditions, which affect levels of business and leisure travel. Fluctuations in lodging supply typically are driven by levels of overall lodging demand as extended periods of strong lodging demand growth tend to encourage new hotel development and an increase in lodging supply. However, the rate of lodging supply growth is also influenced by a number of additional factors, including availability and cost of capital, construction costs, local market considerations, and considerations of alternatives for and best uses of properties.

From 2003 to 2008, pricing of hotels in the U.S. appreciated well in excess of the hotels’ underlying performance, primarily driven by record levels of debt financing. Beginning in 2008, the U.S. lodging industry experienced a significant downturn due to a decline in consumer and business spending as a result of the weakness in the global economy, particularly the turmoil in the credit markets, erosion of consumer confidence and increasing unemployment. As a result, lodging demand from both leisure and business travelers decreased significantly in 2008 and 2009. This decreased demand for hotel rooms, together with increases in lodging supply in 2008 and 2009 due to the completion of hotels under development before the global recession began, resulted in declines in occupancy and reductions in average daily rate (“ADR”) as hotels competed more aggressively for guests. These events had a substantial negative impact on revenue per available room (“RevPAR”). According to STR, Inc. ("STR"), a leading source of lodging industry information, RevPAR declined 16.7% in 2009, the largest decline recorded since they began tracking the U.S. lodging industry, and a significantly larger decline than the two previous lodging industry downturns in 1991 and 2001-2002.

From 2008 through early 2010, a significant correction in the value of hotels occurred, primarily as a result of the impact of the economic downturn on the lodging industry. In addition, during this period, due to the widely publicized credit crisis, the market for commercial mortgage backed securities was virtually closed, and many traditional real estate lenders, such as national and regional banks and insurance companies, saw their balance sheets impaired, which resulted in a severe contraction in available debt financing for hotels, which further impacted hotel values.

The Trust was founded to capitalize on the opportunity created by this lodging industry downturn. Since completing our IPO in 2010 and through the first half of 2015, we took advantage of industry conditions to acquire our current portfolio of 22 hotels, consisting of 6,694 rooms, at prices generally below replacement cost, with attractive yields and upside potential. We have followed a disciplined strategy to acquire hotels generally concentrated in the central business districts of top U.S. lodging markets, which historically have had high barriers-to-entry. Our portfolio reflects our strong efforts to establish geographic diversification, with hotels in nine states and the District of Columbia, but maintains a clear focus on the most important U.S. lodging markets.

The lodging industry has recovered significantly since our IPO. Industry-wide RevPAR from 2010 through 2016 increased 52.7%, as reported by STR, and in 2013, surpassed the prior peak established in 2007, as a result of continued improvements in hotel occupancy levels and ADR, and below historical average growth in lodging supply. These positive lodging fundamentals have moderated. In 2016, the rate of lodging demand growth (1.7%, as reported by STR) decreased as compared to the several years prior while the rate of lodging supply growth (1.6%, as reported by STR) approached historical average levels. Several industry prognosticators, including STR, expect lodging supply growth to exceed lodging demand growth in 2017 for the first time since 2009.

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We continue to believe our hotel portfolio is well positioned for future performance and long-term real estate value appreciation as a result of our focus on high-quality hotels located in major U.S. lodging markets. However, recognizing that the industry is now entering the eighth year of the current lodging and economic cycle, we expect limited, if any, acquisition activity for the remainder of the lodging cycle and we may increasingly evaluate opportunities to dispose of hotels that we believe have maximized their values.

Business Strategy

Our goal is to deliver strong total returns to our shareholders in the form of the appreciation of our assets and our ability to return funds to our shareholders in the form of dividends. We intend to pursue the following strategies to achieve this goal:

Identify and pursue value-added investments at our hotels. We employ value-added strategies designed to improve the operating performance and value of our hotels. Over the last several years, we have focused a significant portion of our efforts on identifying and pursuing investments to promote the competitive positioning and operations of our hotels, and we intend to continue our aggressive efforts in this regard. Examples include the approximate $7 million renovation and repositioning of the Hotel Adagio San Francisco in 2012, enabling the hotel to become part of the Marriott Autograph Collection; the approximate $5 million we spent in 2012 to create 35 additional guestrooms on the top two, previously vacant, floors of the W Chicago – City Center; and in 2014, the completion of three major investments, including the approximate $37 million comprehensive renovation at our W Chicago – Lakeshore, the approximate $25 million comprehensive renovation of our former W New Orleans to re-brand the hotel as the Le Meridien New Orleans, and the approximate $8 million comprehensive renovation of our former Holiday Inn New York City Midtown – 31st Street to re-brand the hotel as the Hyatt Herald Square New York.

Optimize the branding and management of our hotels. We regularly evaluate opportunities to re-brand certain hotels by determining which brands are available in the market, seeking to quantify the potential improvement in revenue generation and profitability that a hotel might experience under a new brand. We analyze these opportunities by reviewing the revenue data of the local competitive set of hotels that are branded most similarly to the proposed new brand for the hotel, which data we obtain from a third party, STR. Based on this data, we project the expected revenue for the hotel with the new brand and use hotel industry standards for profit margins, and our own operating history, to calculate potential profits. We then compare the potential profits to the expected capital costs to bring the hotel into compliance with the standards of the proposed new brand to calculate a return on investment, which we use to determine whether it is in our shareholders’ interests to undertake the re-branding project. Examples of our deployment of this strategy can be found in the repositioning of the previously independent Hotel Adagio San Francisco to become part of the Marriott Autograph Collection in 2013, and the conversions of our former W New Orleans to the Le Meridien brand and our former Holiday Inn New York City Midtown – 31st Street to the Hyatt brand in 2014. Likewise, we continually evaluate the performance of the third parties managing each of our hotels and evaluate whether a hotel might perform better under different managerial control. In this regard, we review the operating performance of the hotel and compare that with its local competitive set and industry standards, as well as our experience in our dealings with the 10 management companies currently operating our hotels. In accordance with this strategy, we replaced the management company operating our two hotels located in New York in October 2016. We will continue to pursue a change in a hotel’s management company when we determine the benefits of a change outweigh the costs.

Selectively expand our hotel portfolio through new investments. We may continue our efforts to grow our business by acquiring additional hotels that meet our qualitative and quantitative investment criteria, which may change depending upon our assessment of, among other things, our cost of capital, liquidity, and expectations regarding future lodging industry fundamentals and macroeconomic conditions. We have and will continue to focus our efforts on upper-upscale hotels operating under national franchise brands located in the top 25 U.S. Metropolitan Statistical Areas, in close proximity to major market demand generators that are attractive to business travelers. Our team may continue to target acquisitions that we believe would strengthen the overall quality of our hotel portfolio and further diversify the portfolio by market, customer type and brand. While we anticipate that we would continue to focus on acquiring hotels that are proven leaders in market share, setting the rates in the market and providing superior meeting space, services or amenities, and in good physical condition, we may be opportunistic in evaluating acquisition

opportunities that might involve near-term renovations, re-branding or management changes under the methods described above. From a financial perspective, we expect to be conservative in our underwriting of the potential returns on investment when evaluating any new acquisition opportunities, which we believe is prudent given the cyclical nature of the lodging industry, and the lack of certainty as to the duration of any growth period.
Evaluate opportunities to redeploy capital. We regularly review the hotels in our portfolio to ensure that they continue to meet our investment criteria. If we were to conclude that a hotel’s value has been maximized, or that it no longer fits within our financial or strategic criteria, we may seek to sell the hotel and plan to use the proceeds, net of any retirement of related debt, to supplement our capital for use in future investments in our existing or new hotels or to reduce the Trust's overall leverage. In accordance with this strategy, we sold the Courtyard Anaheim at Disneyland Resort, an upscale hotel located in a market with a significant increase in lodging supply expected, for $32.5 million in 2014 and used the net proceeds to partially fund the subsequent acquisition of the JW Marriott San Francisco Union Square, a high-quality hotel located in the favorable San Francisco market, for a purchase price of $147.2 million in 2014.

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Maintain our conservative capital structure to preserve financial flexibility. Since our IPO in 2010, we have maintained discipline in targeting an overall debt level not to exceed 40% of the aggregate value of all of our hotels (as calculated in accordance with our revolving credit facility). At the same time, we have secured long-term, low interest rate financing on favorable terms. We believe our strong balance sheet offers us the dual benefit of the ability to move rapidly to capitalize on favorable investment opportunities, as well as to maintain or increase the level of dividends we pay our shareholders over time.

Hotel Operating Agreements

The following are general descriptions of our management agreements, franchise agreements and TRS lease agreements:

Management agreements

We have entered into management agreements with third parties to manage our hotels. Our hotel managers generally have sole responsibility and authority for the hotel’s day to day operations and provide all managerial and other hotel employees, oversee operations and maintenance, prepare reports, budgets and projections and provide other administrative and accounting support services. We structure our hotel management agreements to allow us to closely monitor the performance of our hotels and to ensure, among other things, that our third-party managers: (1) implement an approved business and marketing plan; (2) implement a disciplined capital expenditure program; and (3) establish and prudently spend appropriate furniture, fixtures and equipment (“FF&E”) reserves.

Our current management agreements generally provide for base management fees ranging from 2% to 4% of gross hotel revenues and incentive compensation if hotel operating income, as defined in the management agreements, exceeds certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after we have received a priority return on our investment in the hotel. The terms of our management agreements generally range from five to 20 years initially, with certain extension and renewal periods. In addition, we may, in certain circumstances, terminate each of the management agreements before the expiration of the initial term if the particular hotel fails to meet specified performance objectives, generally targeted levels of RevPAR and gross operating profit, for specified periods. In addition, certain management agreements impose conditions with respect to (1) levels of mortgage loan financing and (2) conveyances of the hotel or any direct or indirect interest therein to third parties.

Franchise agreements

Of our 22 current hotels, 12 operate pursuant to franchise agreements with hotel brand companies and 10 operate pursuant to management agreements with hotel brand companies that allow them to operate under their respective brands. Under the 12 franchise agreements, we generally pay a royalty fee ranging from 3% to 6% of room revenues and up to 3% of food and beverage revenues, plus additional fees for marketing, central reservation systems, and other franchisor costs that amount to between 1% and 5% of room revenues. The terms of our franchise agreements generally range from 10 to 20 years initially, with certain extension and renewal periods. The franchise agreements specify certain management, operational, recordkeeping, accounting, reporting and marketing standards and procedures with which we must comply. The agreements also obligate us to comply with the franchisor’s standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by us, display of signs, and the type, quality and age of FF&E included in guest rooms, lobbies and other common areas. In addition, certain franchise agreements impose conditions with respect to (1) levels of mortgage loan financing and (2) conveyances of the hotel or any direct or indirect interest therein to third parties.

TRS lease agreements

Our TRS lease agreements are inter-company agreements between our property-owning subsidiaries and our TRS lessees. These agreements generally contain customary terms for third-party lease agreements, including customary terms regarding lease payments and other expenses.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains) to our shareholders. We believe that we have operated and it is our current intention to continue to operate in satisfaction of these requirements and to meet the qualifications for taxation as a REIT. As a REIT, we generally will not be subject to federal income tax on that portion of our taxable income that is currently distributed to shareholders. If we fail to qualify for taxation as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and to federal income and excise taxes on our undistributed taxable income. In addition, taxable income from activities conducted by our TRSs are subject to federal and state income taxes.

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Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns. For non-resort properties, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season. For resort properties, demand is generally higher in the winter months. We expect that our operations will generally reflect non-resort seasonality patterns. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, expected to be greatly influenced by overall economic cycles.

Competition

We believe that competition for the acquisition of hotels is highly fragmented. We face competition from institutional pension funds, private equity investors, other REITs and numerous local, regional, national, and foreign owners, including franchisors. Some of these entities may have substantially greater financial resources than we do and may be able and willing to accept more risk than we can prudently manage. Competition generally may increase the bargaining power of property owners seeking to sell and reduce the number of suitable investment opportunities offered to us.

The hotel industry is highly competitive. Our hotels compete with other hotels and, to a lesser extent, lodging alternatives (e.g., Airbnb, HomeAway and VRBO) for guests in each market in which we operate. Competitive advantage is based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered, and quality of customer service. Competition is often specific to the individual market in which a hotel is located and includes competition from existing and new hotels operated under brands in the relevant segments. Increased competition could harm our occupancy, ADR and RevPAR, or may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may reduce our profitability.

Regulation

Our hotels are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe each of our hotels has the necessary permits and approvals to operate its business, and each is adequately covered by insurance.

Americans with Disabilities Act

Our hotels must comply with Title III of the Americans with Disabilities Act of 1990 (“ADA”) to the extent that such hotels are “public accommodations” as defined by the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our hotels where such removal is readily achievable. Although we believe that the hotels in our portfolio substantially comply with present requirements of the ADA, we have not conducted a comprehensive audit or investigation of all of our hotels to determine our compliance, and one or more hotels may not be fully compliant with the ADA. Noncompliance with the ADA could result in the incurrence of additional costs to attain compliance. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and make alterations as appropriate in this respect.

Environmental matters

Our hotels are subject to various federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of the property, to perform or pay for the cleanup of contamination (including hazardous substances, waste or petroleum products) at, on, under or emanating from the property and to pay for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused such contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned the property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell properties. Contamination at, on, under or emanating from our properties also may expose us to liability to private parties for costs of remediation and/or personal injury or property damage. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which the property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner’s ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all.

Some of our properties may have contained historic uses which involved the use and/or storage of hazardous chemicals and petroleum products (e.g., storage tanks, gas stations, dry cleaning operations) which, if released, could have impacted our properties. In addition, some of our properties may be near or adjacent to other properties that have contained or currently contain storage tanks containing petroleum products or conducted or currently conduct operations which utilize other hazardous or toxic substances. Releases from these adjacent or surrounding properties could impact our properties. Independent environmental consultants have conducted Phase I environmental site assessments on all of the properties in our portfolio and we intend to conduct Phase I environmental site assessments on any properties we may acquire in the future. Phase I site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey. None of the existing Phase I site assessments revealed any past or present environmental condition that we believe would have a material adverse effect on our business, assets or results of operations. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

In addition, our hotels are subject to various federal, state, and local environmental, health and safety regulatory requirements that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew, and waste management. Some of our hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which are subject to regulation (e.g., swimming pool chemicals). Our hotels incur costs to comply with these environmental, health and safety laws and regulations and could be subject to fines and penalties for non-compliance with applicable laws. However, we are aware of no past or present environmental liability for non-compliance with environmental laws that we believe would have a material adverse effect on our business, assets or results of operations.

Certain hotels we currently own or those we acquire in the future contain, may contain, or may have contained, asbestos-containing material (“ACM”). Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building. Such laws regarding ACM may impose fines and penalties on building owners, employers and operators for failure to comply with these requirements or expose us to third-party liability. However, we manage such ACM under asbestos operations and maintenance plans, which we have developed and implemented at each of our hotels where there is known ACM or for which suspected ACM is present.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants, such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from third parties if property damage or personal injury occurs. We are not presently aware of any indoor air quality issues at our properties that could result in a material adverse effect on our business, financial condition or results of operations.

Employees

As of February 17, 2017, we had 15 employees. All persons employed in the day to day operations of our hotels are employees of the management companies engaged by our TRS lessees to operate such hotels.

Available Information

We maintain an Internet site, www.chesapeakelodgingtrust.com, which contains additional information concerning the Trust. We make available free of charge through our Internet site our reports that have been filed or furnished with the Securities and Exchange Commission (the “SEC”) as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. We also post on our Internet site our Code of Business Conduct and Ethics, Principles of Corporate Governance, and the charters of our Audit, Compensation, and Nominating and

Corporate Governance Committees of our board of trustees. We intend to disclose on our website any changes to, or waivers from, our Code of Business Conduct and Ethics. Information on our Internet site is neither part of nor incorporated into this Form 10-K.

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Item 1A. Risk Factors

Our business faces many risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occur, our business, financial condition or results of operations could suffer, our ability to make cash distributions to our shareholders could be impaired, and the trading prices of our common and preferred shares could decline. You should know that many of the risks described may apply to more than just the subsection in which we grouped them for the purpose of this presentation.

Risks related to our business and hotels

The lodging industry is highly cyclical in nature, and we cannot assure you if or how long the growth period of the current lodging cycle will last.

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. GDP. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by changing general economic and local market conditions, which subsequently affect levels of business and leisure travel. The global economic downturn from late 2007 through 2009 led to a significant decline in demand for goods and services provided by the lodging industry, lowered occupancy levels and significantly reduced room rates. Demand for goods and services provided by the lodging industry generally trails improvement in economic conditions, but since 2010 and through 2016, the lodging industry has recovered faster and stronger than the U.S. economy generally, with industry-wide RevPAR increasing 52.7% over that period, as reported by STR. However, the rate of lodging demand growth decreased in 2016 (1.7%, as reported by STR) as compared to the several years prior and there can be no assurance of either any further increase in lodging demand from current levels or of the timing or extent of any such lodging demand growth. If lodging demand weakens, our operating results and profitability, and the value of our hotels, could be adversely affected. A slowdown in U.S. economic growth or contraction of the U.S. economy, if experienced, would likely have an adverse impact on our revenues and negatively affect our profitability.

In addition to general economic conditions, new lodging supply is an important factor that can affect the lodging industry’s performance and overbuilding has the potential to further exacerbate the negative impact of an economic downturn. After experiencing several years of significantly below historical average growth, in 2016, the rate of lodging supply growth (1.6%, as reported by STR) approached historical average levels. Room rates and occupancy, and thus RevPAR, tend to increase when lodging demand growth exceeds lodging supply growth. When lodging supply growth exceeds lodging demand growth, occupancy tends to decrease and room rates and RevPAR can experience limited increases or even decrease. Several industry prognosticators, including STR, expect lodging supply growth to exceed lodging demand growth in 2017 for the first time since 2009. A reduction or slowdown in growth of lodging demand or increased growth in lodging supply could result in returns that are substantially below expectations or result in losses, which could have a material adverse effect on our business, financial condition, results of operations and cash available for distributions to our shareholders.

We may not be able to successfully grow our business or generate sufficient operating cash flows to sustain or increase distributions to our shareholders.

Our ability to grow our business and sustain or increase distributions to our shareholders depends on many factors, including the financial performance of our hotels, the availability of additional attractive acquisition opportunities that satisfy our investment strategies, and our success in identifying and consummating the acquisitions on favorable terms. We compete for investment opportunities with other lodging REITs and real estate investors, some of which have substantially greater financial resources than we do. This competition may limit the number of suitable investment opportunities offered to us or have the effect of increasing the bargaining power of hotel owners seeking to sell hotels, making it more difficult for us to acquire new hotels on attractive terms or at all. Our ability to commit to purchase specific properties will depend, in part, on the amount of our available cash and financial resources at a given time. We cannot assure you that we will be able to acquire hotels with attractive returns or will not seek hotels with greater risk to obtain the same level of returns. Furthermore, there can be no assurance that our current hotels will continue to generate sufficient operating cash flows to enable us to sustain or increase the amount or rate of distributions we make to our shareholders.

Because our officers have broad discretion to invest our available cash and the proceeds of financing transactions, they may make investments where the returns are substantially below expectations or which result in net operating losses. Our officers have broad discretion, within the general investment policies established by our board of trustees, to invest our available cash and proceeds of financing transactions and to determine the timing of such investments. In addition, our investment policies may be amended or revised from time to time at the discretion of our board of trustees, without a vote of our shareholders. Such discretion could result in investments that may not yield returns consistent with investors' expectations or with which you may not agree. These factors may increase the uncertainty, and thus the risk, of investing in our shares. Our failure to invest our available funds effectively, or to find suitable hotels to acquire in a timely manner or on acceptable terms, could result in returns that are substantially below expectations or result in losses, which could have a material adverse effect on our business, financial condition, results of operations, and cash available for distributions to our shareholders.

We cannot assure you that we will be able to identify additional assets that meet our investment objectives, that we will be successful in consummating any investment opportunities we identify, or that one or more investments we may make will generate revenue, income or cash flow. Our inability to do any of the foregoing could materially and adversely affect our results of operations and cash flows and our ability to make distributions to our shareholders.

Our success depends on key personnel whose continued service is not guaranteed.

We depend on the efforts and expertise of our president and chief executive officer, our executive vice president and chief financial officer, and our executive vice president and chief operating officer to manage our day to day operations and strategic business direction. The loss of their services, and our inability to find suitable replacements, could have an adverse effect on our operations.

Our returns could be negatively impacted if our third-party hotel managers do not manage our hotels in our best interests.

Since U.S. federal income tax laws restrict REITs and their subsidiaries from operating or managing a hotel, we do not operate or manage our hotels. Instead, we lease all of our hotels to our TRSs and our TRSs retain third-party managers to operate our hotels pursuant to management agreements. Our cash flow from the hotels may be adversely affected if our managers fail to provide quality services and amenities or if they, our hotel brand companies, or their respective affiliates fail to maintain a quality brand name. In addition, our hotel managers or their affiliates may manage, and in some cases may own, may have invested in or may have provided credit support or operating guarantees to hotels that compete with our hotels, any of which could result in conflicts of interest. As a result, our hotel managers may make decisions regarding competing lodging facilities that are not in our best interests.

We do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, ADR and RevPAR, we are not able to force the management company to change its method of operation of our hotels. If necessary, we generally will attempt to resolve issues with our hotel managers through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate the dispute or submit the matter to third-party dispute resolution. Our ability to seek redress against a management company for a violation of the terms of the applicable management agreement with our TRS may be limited by the terms of the applicable management agreement. In the event that we need to replace any of our management companies, we may be required by the terms of the management agreement to pay substantial termination fees and may experience significant disruptions at the affected hotels.

Funds spent to maintain licensed brand standards or the loss of a brand license may reduce cash available for shareholder distributions.

All of our hotels operate under licensed brands, either through management or franchise agreements with hotel brand companies that permit us to do so, and we anticipate that some of the hotels we acquire in the future also will operate under licensed brands. We are therefore subject to the risks inherent in concentrating our hotels in licensed brands owned by a limited number of hotel brand companies. These risks include reductions in business following negative publicity related to one of our licensed brands or the hotel brand company that owns one of our licensed brands, or arising from or after a dispute with a hotel brand company.

The maintenance of the brand licenses for our hotels is subject to the hotel brand companies' operating standards and other terms and conditions. Hotel brand companies periodically inspect our hotels to ensure that we and our lessees and hotel managers follow their standards. Failure by us, our TRSs, or one of our hotel managers to maintain these standards or other terms and conditions could result in a brand license being terminated. If a brand license terminates due to our failure to make required improvements or to otherwise comply with its terms, we may also be liable to the hotel brand company for a termination payment, which will vary by hotel brand company and by hotel. As a condition of our continued holding of a brand license, a hotel brand company could also possibly require us to make capital expenditures, even if we do not believe the capital improvements are necessary or desirable or will result in an acceptable return on our investment. Nonetheless, we may risk losing a brand license if we do not make hotel brand company-required capital expenditures.

If a hotel brand company terminates the brand license, we may try either to obtain a suitable replacement brand or to operate the hotel without a brand license. Additional consolidation of hotel brand companies may further hinder our ability to find a suitable replacement brand by reducing the number of available alternatives. The loss of a brand license could materially and adversely affect the operations or the underlying value of the hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the hotel brand company. A loss of a brand license for one or more hotels could materially and adversely affect our revenues. This loss of revenues could, therefore, also adversely affect our financial condition, results of operations and cash available for distributions to our shareholders.

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Our business may be adversely affected by consolidation in the lodging industry.

Consolidation among hotel brand companies or other participants in the lodging industry may increase the negotiating leverage of the resulting companies, which might result in us incurring increased franchise or management fees. Our hotels operate under multiple licensed brands, each of which offer differing guest amenities and may be associated with different loyalty reward program. The consolidation of two or more hotel brand companies may cause our financial condition and results of operations to be even more dependent on the success and reputation of a limited number of owners of these licensed brands. For example, on September 23, 2016, Marriott International, Inc. ("Marriott") completed its acquisition of Starwood Hotels & Resorts Worldwide, Inc., bringing Starwood's portfolio of brands together with Marriott's portfolio of brands (the "Marriott/Starwood Merger"). As a result of the Marriott/Starwood Merger, our hotels primarily operate under licensed brands owned by three main hotel brand companies: 12 of our hotels are now managed or franchised by Marriott; six of our hotels are now managed or franchised by Hyatt Hotels; and two of our hotels are now managed or franchised by Hilton Worldwide. In addition, to the extent that consolidation among hotel brand companies adversely affects the loyalty reward program offered by one or more of our hotels, customer loyalty to those hotels may suffer and demand for guestrooms may decrease. Furthermore, because each hotel brand company relies on its own network of reservation systems, hotel management systems and customer databases, the integration of two or more networks may result in a disruption to operations of these systems, such as disruptions in processing guest reservations, delayed bookings or sales, or lost guest reservations, which could adversely affect our financial condition, results of operations and cash available for distributions to our shareholders.

Our ability to maintain quarterly distributions to our shareholders is subject to fluctuations in our financial performance, operating results and capital improvement requirements.

As a REIT, we are required to distribute at least 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding net capital gains) each year to our shareholders. Future downturns in our operating results and financial performance or unanticipated capital improvements to our hotels, including capital improvements which may be required by the hotel brand companies, may impact our ability to declare or pay distributions to our shareholders. The timing and amount of distributions are in the sole discretion of our board of trustees which considers, among other factors, our financial performance, debt service obligations and debt covenants, capital expenditure requirements, and the number of our shares outstanding. We intend to continue to pay regular quarterly dividends but cannot assure you that we will continue to generate sufficient cash in order to fund distributions in the same aggregate amounts as we have paid in the past or at all.

Among the factors which could adversely affect our results of operations and our distributions to shareholders is the failure of our TRSs to make required rent payments because of reduced net operating profits or operating losses, or increased debt service requirements and capital expenditures at our hotels, including capital expenditures required by the hotel brand companies. Among the factors which could reduce the net operating profits of our TRSs are decreases in hotel revenues and increases in hotel operating expenses. Hotel revenue can decrease for a number of reasons, including increased competition from a new supply of hotel rooms and decreased demand for hotel rooms. These factors can reduce both occupancy and room rates at our hotels.

We lease all of our hotels to our TRSs, and our TRSs are subject to hotel operating risks, including risks of sustaining operating losses after payment of hotel operating expenses, including management fees. These risks can adversely affect the net operating profits of our TRSs, our operating expenses, and cash available for distributions to our shareholders.

Compliance with covenants in our revolving credit facility and other debt instruments may limit our freedom to operate our business and impair our ability to make distributions to our shareholders.

The terms of our revolving credit facility and other debt instruments require us to comply with customary financial and other covenants, including covenants that:

- require us to maintain minimum debt service coverage ratios;
- require us to maintain minimum levels of tangible net worth;
- limit our ability to make certain investments;
- prevent us from incurring total debt in excess of a percentage of our total asset value;

- prohibit us from making annual distributions to our shareholders in excess of 90% of our funds from operations, or FFO, over time, except for such distributions as may be required to enable us to maintain our qualification as a REIT for U.S. federal income tax purposes, and prohibit us from making any distributions to shareholders while there is a continuing event of default;
- impose concentration limitations on the value and other characteristics of hotels comprising the borrowing base of the revolving credit facility; and
- limit our ability to engage in a change in control transaction without causing the amounts outstanding under the revolving credit facility to become immediately due and payable.

These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenues. If we fail to comply with any of these requirements, then the related

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indebtedness, and any other debt containing cross-default or cross-acceleration rights for our lenders, could become immediately due and payable. We cannot assure you that we could pay all of our debt if it became due, or that we could continue in that instance to make distributions to our shareholders and maintain our REIT qualification.

Certain of our existing mortgage loan agreements contain "cash trap" provisions that could limit our ability to make distributions to our shareholders.

Certain of our mortgage loan agreements contain cash trap provisions that may be triggered if the performance of the affected hotel or hotels declines. If the provisions in one or more of these mortgage loan agreements were triggered, substantially all of the cash flow generated by the hotel or hotels affected would be deposited into cash management accounts for the benefit of the lenders until the affected hotel or hotels' performance improved to the levels required in the mortgage loan agreements. If triggered, the lenders would use the cash in the cash management accounts to fund certain items, including debt service, deposits into reserves held in escrow for normal replacement of FF&E, property improvement plans, real estate taxes, and insurance, and hotel operating expenses. As a result, if triggered, these cash trap provisions could affect our liquidity and our ability to make distributions to our shareholders.

If we are unable to repay or refinance our revolving credit facility and other debt, we may be unable to sustain or increase distributions to our shareholders and our share price may be adversely affected.

Borrowings under our revolving credit facility and our other existing and future debt subject us to many risks, including the risks that:

- our cash flow from operations will be insufficient to make required payments of principal and interest;
- our debt may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing cash available for distributions to our shareholders, funds available for operations and capital expenditures, future business opportunities or other purposes;
- the terms of any refinancing may not be as favorable as the terms of the debt being refinanced; and
- the terms of our debt may limit our ability to make distributions to our shareholders and therefore adversely affect the market price of our shares.

If we do not have sufficient funds to repay our debt at maturity, it may be necessary to refinance this debt through additional debt financing, or from funds raised through private or public offerings of debt or equity securities. Adverse economic conditions could cause the terms on which we borrow or refinance to be unfavorable or otherwise impair our ability to raise necessary funds through the capital markets. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of hotels on disadvantageous terms or at times which may not permit us to receive an attractive return on our investments, potentially resulting in losses adversely affecting cash flow from operating activities. We have placed, and may continue to place, mortgages on our hotels to secure our debt. To the extent we cannot meet our debt service obligations, we risk losing some or all of those hotels to foreclosure.

Interest expense on our debt may limit our cash available to fund our growth strategies and shareholder distributions.

Higher interest rates could increase debt service requirements on floating rate debt and could reduce funds available for operations, distributions to our shareholders, future business opportunities or other purposes.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make shareholder distributions.

We have obtained in the past, and may continue to seek in the future, various forms of interest rate protection-such as swap agreements, interest rate cap contracts or similar agreements-to hedge against the possible negative effects of interest rate fluctuations. However, we cannot assure you that any hedging will adequately mitigate the adverse effects of interest rate increases or that counterparties under these agreements will honor their obligations thereunder. In addition, we may be subject to risks of default by hedging counterparties.

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

We may co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to

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our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or trustees from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting hotels owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers.

We and our hotel managers rely on technology in our operations and failures, inadequacies, interruptions, security breaches or cyber-attacks affecting our service could harm our business.

The execution of our business strategy is heavily dependent on the use of technologies and systems, including the Internet, to access, store, transmit, deliver and manage information and processes. Although we believe we have taken commercially reasonable steps to protect the security of our systems, there can be no assurance that such security measures will prevent failures, inadequacies or interruptions in system services, or that system security will not be breached through physical or electronic break-ins, computer viruses and attacks by hackers. Disruptions in service, system shutdowns and security breaches could have a material adverse effect on our business.

Similarly, our third-party hotel managers are dependent on information technology networks and systems, including the Internet, to access, store, transmit, deliver and manage proprietary and customer information. These complex networks include reservation systems, hotel management systems, customer databases, call centers, administrative systems, and third-party vendor systems. These systems require the collection and retention of large volumes of personally identifiable information of hotel guests, including credit card numbers. Our hotel managers may store and process such proprietary and customer information both on systems located at the hotels we own and other hotels operated by our third-party managers, their corporate locations and at third-party owned facilities, including for example, in a third-party hosted cloud environment. These information networks and systems can be vulnerable to threats such as system, network or Internet failures; computer hacking or business disruption; cyber-terrorism; viruses, worms or other malicious software programs; and employee error, negligence or fraud. The risks from these cyber threats are significant. We rely on the security systems of our hotel managers to protect proprietary and customer information from these threats. Any compromise of our hotel managers' networks could result in a disruption to operations, such as disruptions in fulfilling guest reservations, delayed bookings or sales, or lost guest reservations. Any of these events could, in turn, result in disruption of the operations of the hotels we own, in increased costs and in potential litigation and liability. In addition, public disclosure, or loss of customer or proprietary information could result in damage to the hotel manager's reputation and a loss of confidence among hotel guests and result in reputational harm for the hotels owned by us and managed by them, which may have a material adverse effect on our business.

Our ability to sustain the amount of distributions we make to our shareholders may be affected by various operating risks common to the lodging industry.

Our hotels are subject to various operating risks common to the lodging industry, many of which are beyond our control, including the following:

- competition from other hotels and lodging alternatives, including Airbnb, HomeAway and VRBO, in our markets;
- development of new hotels in our markets, which could adversely affect occupancy and revenues at the hotels we currently own or may acquire;
- dependence on business and commercial travelers and tourism;
- consolidation in the lodging industry;
- unfavorable changes in convention calendars in our markets which may negatively affect demand for guestrooms at our hotels in those markets;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- increases in operating costs due to inflation, increasing labor costs and other factors that may not be offset by increased room rates;
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changes in governmental laws and regulations, fiscal policies and zoning ordinances that may increase our costs of compliance with laws and regulations, fiscal policies and ordinances;

- adverse effects of international, national, regional and local economic and market conditions;
- the value of the U.S. dollar, which may adversely affect the number of international business and commercial travelers and tourists entering the U.S. and in particular the gateway markets in which many of our hotels are located;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns, including pandemics and epidemics, such as Zika, H1N1 influenza (swine flu), avian bird flu, SARS, and Ebola, civil unrest, political instability, regional hostilities, imposition of taxes or surcharges by regulatory authorities, travel related accidents and unusual weather patterns, including natural disasters, such as hurricanes, tsunamis or earthquakes;
- adverse effects of a downturn in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as we discuss in detail below.

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These factors could reduce demand for rooms at our hotels, adversely affecting our operating results and adversely affecting the amount or frequency of distributions we make to our shareholders.

Our revenues and cash available for shareholder distributions may be affected by the seasonality of the hotel industry.

The hotel industry is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in our revenues. The first and fourth fiscal quarters tend to be our weaker periods. Our quarterly earnings may also be adversely affected by factors outside our control, including weather conditions and poor economic factors. As a result, we may have to enter into short-term borrowings in certain quarters in order to offset these fluctuations in revenues and to sustain the amount or quarterly rate of distributions we make to our shareholders.

The ongoing need for capital expenditures at our hotels may limit the amounts available for shareholder distributions.

Our hotels will require periodic renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment, in order to optimize their competitive position in their respective markets. Hotel brand companies, from whom we license brands for certain of our hotels, require periodic capital improvements as a condition of keeping the brand licenses. In addition, our hotel managers and lenders require that we set aside annual amounts for capital improvements to our hotels. These capital improvements may give rise to the following risks:

- construction cost overruns and delays;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on affordable terms;
- uncertainties as to market demand or a loss of market demand after capital improvements have begun; and
- possible environmental problems.

The costs of all these capital improvements could adversely affect our financial condition and cash available for distributions to our shareholders.

Hotel development is subject to timing, budgeting and other risks. To the extent we acquire hotels that are under development, these risks may adversely affect our operating results and may limit the amounts available for shareholder distributions.

We may in the future acquire hotels while they are under development if suitable opportunities arise, taking into consideration general economic conditions. Hotels involve a number of development risks, including risks associated with:

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

To the extent we invest in hotels under development, we cannot assure you that any development project will be completed on time, within budget, or at all. The developer's inability to complete a project on time or within budget may adversely affect the hotel's projected operating results and limit amounts available for distributions to our shareholders.

In addition, we have made in the past and may in the future make loans to enable the developers to complete the project we have contracted to purchase. These loans might be subordinated to the developer's primary construction financing, and therefore may expose us to risks of loss of some or all of the principal we have extended if the developer, despite our financing, is unable to complete the project timely or on budget. Any losses we incur on a loan we may extend in the future could have a material adverse effect on our financial condition, results of operations and cash available for distributions to our shareholders.

The hotel business is capital-intensive, and our inability to obtain financing could limit our growth.

Our hotels will require periodic capital expenditures and renovation to maximize their operating results in an increasingly competitive market. Acquisitions or development of additional hotels will require significant capital expenditures. We may not be able to fund capital improvements or acquisitions solely from cash provided from our operating activities because we must distribute at least 90% of our REIT taxable income (determined before the deduction for dividends paid and net of capital gains) each year to maintain our qualification as a REIT for U.S. federal income tax purposes. As a result, our ability to fund capital expenditures, acquisitions or hotel development through any retained earnings would be limited. Consequently, we rely upon the availability of debt or equity capital to fund hotel acquisitions and improvements. Our ability to grow through acquisitions or development of hotels will be limited if we cannot obtain satisfactory debt or equity financing which will depend on market conditions. Neither our declaration of trust nor our bylaws limits the amount of debt that we can incur. However, we cannot assure you that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

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

Some of our hotel rooms are booked through Internet travel intermediaries, including, but not limited to, Travelocity.com, Hotels.com, Expedia.com, Priceline.com, Orbitz.com, and Booking.com. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and our hotel managers. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as “three-star downtown hotel”) at the expense of brand identification. These intermediaries hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our hotels are franchised. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability could be adversely affected. In addition, the rise of social media reviews, including, but not limited to, tripadvisor.com, could impact our occupancy levels and results of operations as individuals might be more inclined to write about dissatisfaction than satisfaction with a hotel stay or experience.

Future terrorist attacks or changes in terror alert levels could adversely affect our growth strategies, our ability to obtain financing, our ability to insure our hotels, and our overall financial condition.

Previous terrorist attacks in the U.S. and subsequent terrorist alerts have adversely affected the travel and hospitality industries. The impact that terrorist attacks in the U.S. or elsewhere could have on domestic and international markets and our business in particular is indeterminable. It is possible that such attacks or the threat of such attacks could have a material adverse effect on our business, ability to finance our business, ability to insure our hotels, financial condition, results of operations, and/or cash available for distributions to our shareholders.

Uninsured and underinsured losses could adversely affect our operating results and the amount of cash available for distributions to our shareholders.

We maintain comprehensive insurance on each of the hotels we own, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. Various types of catastrophic losses, like hurricanes, earthquakes and floods, losses from foreign terrorist activities, such as those on September 11, 2001, or losses from domestic terrorist activities, such as the Oklahoma City bombing on April 19, 1995, may not be fully insurable. With four hotels located in San Francisco, we are particularly sensitive to earthquake risks in that area. In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotel.

Noncompliance with governmental regulations could adversely affect our operating results.

Environmental matters

Our hotels are subject to various federal, state and local environmental laws. Although we have taken and will take commercially reasonable steps to assess the condition of our properties, there may be unknown environmental problems associated with our properties and we could become subject to strict, joint and several liability for any such contamination by virtue of our ownership interest. Under these environmental laws, courts and government agencies have the authority to require us, as the owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner’s ability to borrow funds using the property as collateral or to sell the property. Under the environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, pay for the cleanup of that facility if it becomes contaminated and threatens human health or the environment. A person that arranges for the disposal, transport for disposal, or treatment of a hazardous substance at a property owned by another may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in a hotel may seek to recover damages if he or she suffers injury from the asbestos. Lastly, some of these environmental laws restrict the use of a property or place conditions on various activities. An example would be laws that require a business using chemicals (such as swimming pool chemicals at a hotel) to manage them carefully and to notify local officials that the chemicals are being used.

The costs to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect cash available for distributions to our shareholders. We can make no assurances that

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(1) future laws or regulations will not impose material environmental liabilities or (2) the current environmental condition of our hotels will not be affected by the condition of properties in the vicinity of our hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to us.

Americans with Disabilities Act and other changes in governmental rules and regulations

Under the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. Although we believe that our hotels substantially comply with present requirements of the ADA, we have not conducted a comprehensive audit or investigation of all of our hotels to determine our compliance, and one or more hotels may not be fully compliant with the ADA. Noncompliance with the ADA could result in the incurrence of additional costs to attain compliance. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect. If we are required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and cash available for distributions to our shareholders could be adversely affected.

We are subject to risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor, which could increase our operating costs, reduce the flexibility of our hotel managers to adjust the size of the workforce at our hotels and impair our ability to make distributions to our shareholders.

We have entered into management agreements with third-party hotel managers to operate our hotels. Our hotel managers are responsible for hiring and maintaining the labor force at each of our hotels. Although we do not directly employ or manage employees at our hotels, we are subject to many of the costs and risks generally associated with the hotel labor force. Increased labor costs due to factors like additional taxes, minimum wage increases or requirements to incur additional employee benefits costs may adversely impact our operating costs. Several local jurisdictions in the U.S. have enacted, or have announced they are considering, legislation increasing the minimum wage applicable to hotel workers in the jurisdiction. If a jurisdiction in which we own a hotel adopts such legislation, the cost to operate the hotel may increase significantly, which could have a material adverse effect on our business, financial condition, results of operations and cash available for distributions to our shareholders.

Labor costs can be particularly challenging at those of our hotels with unionized labor. From time to time, hotel operations may be disrupted as a result of strikes, lockouts, public demonstrations (which may target our non-union hotels as well as those employing unionized labor) or other negative actions and publicity. We also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. Additionally, hotels where our managers have collective bargaining agreements with employees are more highly affected by labor force activities than others. The resolution of labor disputes or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. Furthermore, labor agreements may limit the ability of our hotel managers to reduce the size of hotel workforces during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. We do not have the ability to control the outcome of these negotiations.

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

Because real estate investments are relatively illiquid, our ability to promptly sell one or more hotels in our portfolio in response to changing economic, financial and investment conditions may be limited. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in international, national, regional and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses; and
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civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of the terrorist acts, such as those that occurred on September 11, 2001.

If the investment no longer meets our ownership criteria or objectives, we may decide in the future to sell one or more of our hotels. We cannot predict whether we will be able to sell any hotel for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel.

We may be required to expend funds to correct defects or to make improvements before a hotel can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a hotel, we may

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agree to lock-out provisions that materially restrict us from selling that hotel for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that hotel. These factors and any others that would impede our ability to respond to adverse changes in the performance of our hotels could have a material adverse effect on our financial condition, results of operations, and cash available for distributions to our shareholders.

Increases in our property taxes would adversely affect the amount of cash available for distributions to our shareholders.

Each of our hotels is subject to property taxes. These taxes on our hotels may increase as tax rates change and as the hotels are assessed or reassessed by taxing authorities. If property taxes increase, the amount of cash available for distributions to our shareholders may decrease.

From time to time we may be subject to litigation, which could have a material adverse effect on our financial condition, results of operations, cash flow and trading price of our common shares.

Although our hotel managers are generally responsible for all aspects of the operation of our hotels, and to indemnify us for any losses resulting from litigation arising from such operations, from time to time we may be subject to litigation. Some of these claims may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have a material adverse effect on our financial position, results of operations and cash available for distributions to our shareholders. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and trustees.

Risks related to our organization and structure

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

Under Maryland law generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

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

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

Failure to make required distributions would subject us to tax.

In order for U.S. federal income tax not to apply to earnings that we distribute, each year we must pay out to our shareholders in distributions at least 90% of our REIT taxable income (determined before the dividends paid deduction and excluding any net capital gains). To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Our only source of funds to make these distributions comes from distributions that we receive from the Operating

Partnership. Accordingly, we may be required to borrow money or sell assets to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in a particular year. To the extent that the terms of our revolving credit facility or other debt obligations limit our ability to distribute sufficient taxable income to comply with these distribution requirements, we could be subject to some U.S. federal income tax or even fail to qualify as a REIT.

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Failure to qualify, or failure to remain qualified, as a REIT would subject us to U.S. federal income tax and potentially to additional state and local taxes.

We have been organized and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT for U.S. federal income tax purposes.

The REIT qualification requirements are extremely complex and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so we can qualify, or remain qualified, as a REIT. At any time, new legislation, administrative guidance, or court decisions, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT.

To qualify as a REIT, we are required to satisfy several asset and income tests. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Accordingly, there can be no assurance that the U.S. Internal Revenue Service (the "IRS") will not contend that our hotel leases, interests in subsidiaries, or interests in securities of other issuers will not cause a violation of the REIT requirements.

If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Internal Revenue Code to maintain our qualification as a REIT. We might need to borrow money or sell hotels in order to pay any such tax. Unless we are entitled to relief under certain Internal Revenue Code provisions, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends, which could adversely affect the value of our common shares if they are perceived as less attractive investments.

A maximum 20% tax rate applies to "qualified" dividends payable to individual U.S. shareholders. Dividends payable by REITs, however, are generally not qualified dividends eligible for the reduced rates and are taxed at normal ordinary income tax rates. However, to the extent such dividends are attributable to certain dividends that we receive from a taxable REIT subsidiary, such dividends generally will be eligible for the reduced rates that apply to qualified dividends. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

If our leases are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT.

One of the requirements for us to qualify as a REIT is that we are required to satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRSs, which constitutes substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for U.S. federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We attempt to structure our leases so that the leases will be respected as true leases for U.S. federal income tax purposes, but there can be no assurance that the IRS will agree with this characterization. If the leases are not respected as true leases for U.S. federal income tax purposes, we will not be able to satisfy either of the two gross income tests applicable to REITs and likely would lose our REIT qualification for U.S. federal income tax purposes.

If our TRSs fail to qualify as a "taxable REIT subsidiary" under the Internal Revenue Code, we would fail to qualify as a REIT.

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

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If our hotel managers do not qualify as "eligible independent contractors," or if our hotels are not "qualified lodging facilities," we will fail to qualify as a REIT.

Each hotel with respect to which our TRS lessees pay rent must be a "qualified lodging facility." A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. We believe that all of the hotels leased to our TRSs are qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of hotels, the REIT provisions of the Internal Revenue Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases.

If our hotel managers do not qualify as "eligible independent contractors," we will likely fail to qualify as a REIT for U.S. federal income tax purposes. Each of the hotel management companies that enters into a management contract with one of our TRSs must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by our TRSs to be qualifying income for our REIT income test requirements. Among other requirements, in order to qualify as an eligible independent contractor, a hotel manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the hotel manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such hotel managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we monitor ownership of our shares by our hotel managers and their owners, and certain provisions of our declaration of trust are designed to prevent ownership of our shares in violation of these rules, there can be no assurance that these ownership levels will not be exceeded.

Provisions of our declaration of trust may limit the ability of a third party to acquire control of the Trust, even if our shareholders believe the change of control is in their best interest.

Common share and preferred share ownership limits

Our declaration of trust provides that, unless an exemption were to be granted by our board of trustees, no person may directly or indirectly own more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding common shares or more than 9.8% in value or in number of shares, whichever is more restrictive, of the aggregate preferred shares of each class or series outstanding. These ownership limitations, as well as certain other limits intended to protect our REIT qualification, may prevent an acquisition of control of the Trust by a third party without our board of trustees' approval, even if our shareholders believe the change of control is in their interest.

Authority to issue shares of beneficial interest

Our declaration of trust authorizes our board of trustees to issue up to 400,000,000 common shares and up to 100,000,000 preferred shares without approval of our shareholders. The board's authority to issue additional shares and to determine the rights of any series of preferred shares without shareholder approval could be used as an anti-takeover defense. For example, our board could create a new series of preferred shares with special voting, conversion, or control rights that could make a takeover more difficult. Accordingly, issuances of additional shares may have the effect of delaying or preventing a change in control of the Trust, including transactions at a premium over the then-prevailing market price of our common shares, even if shareholders believe that a change of control is in their interest.

Certain provisions of Maryland law could inhibit changes in control

Certain provisions of Maryland law may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of our common shares. The "business combination" provisions of Maryland law generally prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an "interested shareholder" (defined generally as any person who beneficially owns 10% or more of our then outstanding voting shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting shares) or an affiliate thereof for five years after the most recent date on which the shareholder becomes an interested shareholder. After the five-year prohibition, any business combination between us and an interested shareholder generally must be recommended by our board of trustees and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of our outstanding voting shares; and (2) two-thirds of the votes entitled to be cast by holders of our outstanding voting shares of other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested shareholder. These super-majority vote requirements do not apply if our common shareholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same

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form as previously paid by the interested shareholder for its shares. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by a board of trustees prior to the time that the interested shareholder becomes an interested shareholder. Pursuant to the statute, our board of trustees has by resolution exempted business combinations between us and any other person, provided that such business combination is first approved by our board of trustees (including a majority of our trustees who are not affiliates or associates of such person), and such resolution may not be repealed, amended or altered without the approval by the shareholders of the Trust. Further, under our declaration of trust, a trustee may be removed at any time, but only with cause, at a meeting of the shareholders by the affirmative vote of the holders of not less than two-thirds of the shares then outstanding and entitled to vote generally in the election of trustees.

The “control share” provisions of Maryland law provide that “control shares” of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the shareholder (except solely by virtue of a revocable proxy), entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our trustees. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our common shares. Our bylaws prohibit the repeal, amendment or alteration of this provision without the approval by the shareholders of the Trust; however, there can be no assurance that this provision will not be amended or eliminated at some time in the future.

The “unsolicited takeover” provisions of Maryland law permit our board of trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to implement takeover defenses, some of which (for example, a classified board of trustees) we do not yet have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-current market price. Our board has resolved to opt out of the “unsolicited takeover” provisions of Maryland law, and that resolution may not be repealed absent the approval by the shareholders of the Trust; however, there can be no assurance that the resolution adopted by the board will not be amended or eliminated at some time in the future.

Our ownership limitations may restrict or prevent you from engaging in certain transfers of our common and preferred shares.

In order to maintain our REIT qualification, no more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the U.S. federal income tax laws to include certain entities) at any time during the last half of each taxable year following our first year. To preserve our REIT qualification, our declaration of trust contains a common share ownership limit and a preferred share ownership limit and other related limitations on transfer. Generally, any common shares owned by affiliated owners will be added together for purposes of the common share ownership limit, and any shares of a given class or series of preferred shares owned by affiliated owners will be added together for purposes of the preferred share ownership limit.

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

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

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

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Our TRSs will pay U.S. federal income tax and applicable state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed by such TRSs to us. We believe that the aggregate value of the stock and securities of our TRSs have been and will be less than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets (including our TRSs' stock and securities). Furthermore, we monitor the value of our investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. There can be no assurance, however, that we will be able to comply with the TRS ownership limitations discussed above.

Rents paid to us by our TRSs may not be based on net income or profits to qualify as "rents from real property." We receive "percentage rents" calculated based on gross revenues of the hotels subject to leases to our TRSs - not on net income or profits. We believe our rents reflect normal business practices in this regard but there can be no assurance the IRS will agree.

If the IRS determines that the rents charged under our leases with our TRSs are excessive, their deductibility may be challenged at the TRS level, and we could be subject to a 100% excise tax on "re-determined rent" or "re-determined deductions" to the extent rents exceed an arm's length amount. We believe our rents reflect normal business practices in this regard but there can be no assurance the IRS will agree.

U.S. federal income tax provisions applicable to REITs may restrict our business decisions regarding the potential sale of a hotel.

The U.S. federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% excise tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. We intend to hold our hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels, and to make occasional sales of hotels consistent with our investment objectives. There can be no assurance, however, that the IRS might not contend that one or more of these sales are subject to the 100% excise tax. Moreover, the potential application of this penalty tax could deter us from selling one or more hotels even though it otherwise would be in the best interests of us and shareholders for us to do so. There is a statutory safe harbor available for a limited number of sales in a single taxable year of properties that have been owned by a REIT for at least two years, but that safe harbor likely would not apply to all sales transactions that we might otherwise consider. As a result, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect us.

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

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because the TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses generated by our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income generated by those TRSs.

The ability of our board of trustees to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.

Our declaration of trust provides that our board of trustees may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our shareholders, which may have adverse consequences on our total return to our shareholders.

The ability of our board of trustees to change our major corporate policies may not be in your interest.
Our board of trustees determines our major corporate policies, including our acquisition, disposition, financing, growth, operations and distribution policies. Our board may amend or revise these and other policies from time to time without the vote or consent of our shareholders.

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

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

Risks related to share ownership

We may be unable to generate sufficient cash flows from our operations to make distributions to our shareholders at any time in the future.

We are generally required to distribute to our shareholders at least 90% of our "REIT taxable income" (subject to certain adjustments and excluding any net capital gains) each year for us to maintain our qualification as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy, and we must distribute 100% of our taxable income, including capital gains, to eliminate U.S. federal tax liability. To the extent we satisfy the 90% distribution requirement but distribute less than 100% of our taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income.

Subject to maintaining our REIT qualification, we intend to continue to make regular quarterly distributions to our shareholders, but no assurances can be made that we will continue to generate sufficient income to distribute aggregate amounts in the future similar to those distributed in the past. Our board of trustees has the sole discretion to determine the timing, form and amount of any distributions to our shareholders. Our board of trustees will make determinations regarding distributions based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our board of trustees may deem relevant from time to time. The per share amount of future distributions also will be affected by the number of common and preferred shares that are outstanding from time to time.

Among the factors that could impair our ability to make distributions to our shareholders are:

- our inability to invest our available cash;
- our inability to realize attractive risk-adjusted returns on our investments;
- unanticipated expenses that reduce our cash flow;
- defaults in our investment portfolio or decreases in the value of the underlying assets; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that the level of any distributions we make to our shareholders in the future will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our shares.

In addition, distributions that we make to our shareholders will generally be taxable to our shareholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a shareholder's investment in our shares.

The market price of our shares may vary substantially, which may cause the value of your investment to fluctuate.

The trading prices of equity securities issued by REITs have historically been affected by changes in market interest rates. One of the factors that may influence the price of our shares in public trading markets is the annual yield from distributions on our common or preferred shares as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to shareholders, may lead prospective purchasers of our shares to demand a higher annual yield, which could reduce the market price of our shares.

Other factors that could affect the market price of our shares include the following:

- actual or anticipated variations in our quarterly results of operations;

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- changes in market valuations of companies in the hotel or real estate industries;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes;
- issuances of common or preferred shares or other securities in the future;
- the addition or departure of key personnel;
- announcements by us or our competitors of acquisitions, investments or strategic alliances; and
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics, such as Zika, H1N1 influenza (swine flu), avian bird flu, SARS, and Ebola, civil unrest, political instability, regional hostilities, increases in fuel prices, imposition of taxes or surcharges by regulatory authorities, travel related accidents and unusual weather patterns, including natural disasters, such as hurricanes, tsunamis or earthquakes.

Future issuances of our common shares may depress the market price of our common shares and have a dilutive effect on our existing shareholders.

From time to time we may issue common shares to raise capital or for other business purposes. Future issuances, or the issuance of our common shares in connection with future hotel or business acquisitions, or the perception that such issuances might occur, may cause the market price of our common shares to decline. In addition, future issuances of our common shares may be dilutive to existing shareholders.

Our share repurchase program could affect the price of our common shares and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common shares.

In September 2015, we announced that our board of trustees authorized the repurchase of up to $100.0 million of our outstanding common shares. Under the share repurchase program, we are authorized to repurchase, from time-to-time, our outstanding common shares on the open market or in privately negotiated transactions in the U.S. The timing and amount of share repurchases will be determined based upon our evaluation of market conditions and other factors. The share repurchase program may be suspended, modified or discontinued at any time, and we have no obligation to repurchase any amount of our common shares under the program. Repurchases pursuant to our share repurchase program could affect our share price and increase the volatility of the trading of our common shares. The existence of a share repurchase program could also cause our share price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our shares. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our common shares may decline below the levels at which we repurchased shares of common shares. Although our share repurchase program is intended to enhance long-term shareholder value, short-term share price fluctuations could reduce the program’s effectiveness. As of the date of this report, we have not repurchased any of our outstanding common shares under the share repurchase program and there can be no assurance that any of our outstanding common shares will be repurchased under the program in the future.

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

As of December 31, 2016, 5,000,000 of our series A preferred shares were issued and outstanding. Holders of our outstanding series A preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of our series A preferred shares are entitled to receive a liquidation preference of $25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of our series A preferred shares have the right to elect two additional trustees to our board of trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

The change of control conversion and redemption features of our series A preferred shares may make it more difficult for a party to take over the Trust or discourage a party from taking over the Trust.

Upon the occurrence of a change of control, the result of which our common shares and the common securities of the acquiring or surviving entity (or American Depositary Receipts representing such securities) are not listed on the NYSE, the NYSE MKT or the NASDAQ Stock Market or listed or quoted on a successor exchange or quotation system, holders of our series A preferred shares will have the right (unless we have provided or provide notice of our election to redeem the series A preferred shares) to convert some or all of their series A preferred shares into our common shares (or equivalent value of alternative consideration), and under these circumstances we will also have a special optional redemption right to redeem the series A preferred shares. Upon such a conversion, the holders of series A preferred shares will be limited to a maximum number of our common shares equal to 2.9189 multiplied by the number of series A preferred shares converted. Those features of the series A

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preferred shares may have the effect of inhibiting a third party from making an acquisition proposal for the Trust or of delaying, deferring or preventing a change of control of the Trust under circumstances that otherwise could provide our shareholders with the opportunity to realize a premium over the then-current market price or that our shareholders may otherwise believe is in their best interests.

Future issuances of debt or equity securities ranking senior to our shares may adversely affect the market price of our shares.

In addition to our outstanding series A preferred shares, in the future we may decide to issue additional equity securities ranking senior to our common shares. In addition, we may decide to issue debt securities in the future ranking senior to both our common and preferred shares, and it is possible that these securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common shares and may result in dilution to owners of our common shares. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future issuances. Thus holders of our shares will bear the risk of future issuances reducing the market price of our shares, lowering the per share amount of distributions we may pay and diluting the value of their investment in us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of February 17, 2017, we owned the following 22 hotels:

Hotel		Number of Rooms	Location
1	Hyatt Regency Boston	502	Boston, MA
2	Hilton Checkers Los Angeles	193	Los Angeles, CA
3	Boston Marriott Newton	430	Newton, MA
4	Le Meridien San Francisco	360	San Francisco, CA
5	Homewood Suites Seattle Convention Center	195	Seattle, WA
6	W Chicago – City Center	403	Chicago, IL
7	Hotel Indigo San Diego Gaslamp Quarter	210	San Diego, CA
8	Courtyard Washington Capitol Hill/Navy Yard	204	Washington, DC
9	Hotel Adagio San Francisco, Autograph Collection	171	San Francisco, CA
10	Denver Marriott City Center	613	Denver, CO
11	Hyatt Herald Square New York	122	New York, NY
12	W Chicago – Lakeshore	520	Chicago, IL
13	Hyatt Regency Mission Bay Spa and Marina	429	San Diego, CA
14	The Hotel Minneapolis, Autograph Collection	222	Minneapolis, MN
15	Hyatt Place New York Midtown South	185	New York, NY
16	W New Orleans – French Quarter	97	New Orleans, LA
17	Le Meridien New Orleans	410	New Orleans, LA
18	Hyatt Centric Fisherman's Wharf	316	San Francisco, CA
19	Hyatt Centric Santa Barbara	200	Santa Barbara, CA
20	JW Marriott San Francisco Union Square	337	San Francisco, CA
21	Royal Palm South Beach Miami, a Tribute Portfolio Resort	393	Miami Beach, FL
22	Ace Hotel and Theater Downtown Los Angeles	182	Los Angeles, CA
	Total number of rooms	6,694	

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In addition, we lease our headquarters office space located in Annapolis, Maryland.

Item 3. Legal Proceedings

We are not involved in any material litigation nor, to our knowledge, is any material litigation threatened against us.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

Our common shares trade on the New York Stock Exchange (the "NYSE") under the symbol “CHSP”. The closing price of our common shares on the NYSE on December 30, 2016 was $25.86 per share. The following table sets forth, for the periods indicated, the high and low sales prices as reported on the NYSE and dividends declared per common share:

	Price Range		Dividends
	High	Low	Declared
2016			
First quarter	$27.18	$21.55	$ 0.40
Second quarter	$26.45	$21.93	$ 0.40
Third quarter	$26.28	$22.52	$ 0.40
Fourth quarter	$27.08	$20.81	$ 0.40
2015			
First quarter	$39.05	$31.51	$ 0.35
Second quarter	$34.12	$29.80	$ 0.35
Third quarter	$32.61	$25.79	$ 0.40
Fourth quarter	$29.91	$25.13	$ 0.40

Shareholder Information

As of February 17, 2017, there were 22 registered holders of record of our common shares. This figure does not include beneficial owners who hold shares in nominee form.

In order to comply with certain requirements related to our qualification as a REIT, our declaration of trust includes several restrictions on ownership of our shares, including that shareholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding common or preferred shares of beneficial interest.

Distribution Information

In order to maintain our qualification as a REIT, we must annually distribute to our shareholders at least 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains). For federal income tax purposes, distributions that we make may consist of ordinary income, capital gains, nontaxable return of capital or a combination of those items. Distributions that exceed our current and accumulated earnings and profits (calculated for tax purposes) constitute a return of capital rather than a dividend, which reduces a shareholder’s basis in its shares and will not be taxable to the extent that the distribution equals or is less than the shareholder’s basis in the shares. To the extent that a distribution exceeds both current and accumulated earnings and profits and the shareholder’s basis in its shares, that distribution will be treated as a gain from the sale or exchange of that shareholder’s shares. Every year, we notify shareholders of the taxable composition of distributions paid during the preceding year.

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The following characterizes distributions paid per share for the years ended December 31, 2016 and 2015:

	2016		2015	
	$	%	$	%
Common shares:				
Ordinary income	$1.415000	88.44 %	$1.292828	92.34 %
Return of capital	0.175972	11.00 %	0.107172	7.66 %
Capital gain distribution	0.009028	0.56 %	—	—
	$1.600000	100.00%	$1.400000	100.00%
Preferred shares:				
Ordinary income	$1.925216	99.37 %	$1.937500	100.00%
Return of capital	—	—	—	—
Capital gain distribution	0.012284	0.63 %	—	—
	$1.937500	100.00%	$1.937500	100.00%

We intend to continue to declare quarterly distributions to our shareholders. The amount, timing and frequency of future distributions will be determined by our board of trustees based upon a number of factors, including:

- our results of operations, including our operating expenses and taxable income;
- the timing of the investment of proceeds from future share offerings;
- debt service requirements;
- capital expenditure requirements for our hotels;
- the annual distribution requirement under the REIT provisions of the Internal Revenue Code; and
- other factors that our board of trustees may deem relevant.

The amount of cash available for distributions to our shareholders depends upon our receipt of distributions from our operating partnership, which may depend upon receipt of lease payments from our TRSs, and, in turn, upon the management of our hotels by the various managers our TRSs have engaged to operate our hotels. In addition to the factors outlined above, the per share amounts of future distributions will depend on the number of our common and preferred shares outstanding from time to time.

The terms of our revolving credit facility also limit our ability to make distributions to our shareholders. Under the terms of the revolving credit facility, provided no event of default thereunder has occurred, we may make distributions to our common and preferred shareholders so long as the payments, together with any previous such cash payments in the same fiscal year, are not in excess of the greater of (1) 90% of our funds from operations during such fiscal year and (2) the amount required (on an annualized basis) for us to maintain our status as a REIT.

Issuer Purchases of Equity Securities

The following table provides information about our purchase of our common shares during the three months ended December 31, 2016 (in thousands, except share and per share data):

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
October 1, 2016—October 31, 2016	—	$ —	—	$ 100,000
November 1, 2016—November 30, 2016	—	$ —	—	$ 100,000
December 1, 2016—December 31, 2016	109,275	$ 25.87	—	$ 100,000

109,275	$ 25.87	—

(1) We provide employees, who have been issued restricted common shares, the option of selling shares to us to satisfy the minimum statutory tax withholding requirements on the date their shares vest. The common shares repurchased during the three months ended December 31, 2016 related to such repurchases.

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(2) On September 29, 2015, our board of trustees authorized a share repurchase program pursuant to which we may acquire up to $100.0 million of our common shares. The repurchase program expires in September 2018, but may be suspended or discontinued at any time, and does not obligate us to acquire any particular amount of our shares. As of December 31, 2016, we have not repurchased any common shares under the share repurchase program.

Item 6. Selected Financial Data

We were organized in the state of Maryland in June 2009 and completed our IPO in January 2010. We own 22 hotels as of the date of this filing with aggregate purchase prices of $2.0 billion. The following table includes selected historical data and financial information and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto, both included elsewhere in this Form 10-K (in thousands, except hotel, share and per share data).

	As of December 31,				
	2016	2015	2014	2013	2012
Hotel Portfolio Data:					
Number of hotels	22	22	20	20	15
Number of hotel rooms	6,694	6,699	6,116	5,932	4,727
Balance Sheet Data:					
Cash and cash equivalents	$43,060	$ 50,544	$ 29,326	$ 28,713	$ 33,194
Restricted cash	36,128	40,361	43,387	34,235	23,460
Investments in hotels, net	1,918,704	1,963,358	1,617,419	1,461,220	1,147,104
Total assets	2,035,374	2,087,766	1,713,871	1,547,657	1,226,198
Long-term debt	737,310	769,748	545,659	525,270	398,578
Total shareholders’ equity	1,188,675	1,209,557	1,081,982	946,557	766,808

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Statement of Operations Data:					
Revenues	$619,699	$582,624	$477,980	$420,177	$278,276
Hotel operating expenses, excluding depreciation and amortization	415,398	391,502	324,882	284,963	185,842
Corporate general and administrative	19,167	18,046	15,557	13,125	11,297
Hotel acquisition costs	—	854	3,622	4,222	2,994
Net income	76,706	67,508	60,954	45,318	27,177
Net income available per common share:					
Basic	1.13	1.00	1.01	0.75	0.66
Diluted	1.13	0.99	1.00	0.75	0.66
Cash dividends declared per common share	1.60	1.50	1.20	1.00	0.88
Weighted-average common shares outstanding:					
Basic	58,717,647	57,474,256	50,488,007	47,295,089	34,048,752
Diluted	58,717,647	57,926,399	50,890,861	47,295,089	34,048,752
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	159,570	151,713	119,634	99,962	67,737
Investing activities	(25,754)	(289,005)	(209,816)	(361,558)	(270,459)
Financing activities	(141,300)	158,510	90,795	257,115	214,956

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

Overview

The Trust was organized as a self-advised REIT in the state of Maryland in June 2009, with a focus on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the U.S. We completed our IPO in January 2010 and own the following 22 hotels as of the date of this filing:

	Hotel	Location	Rooms	Acquisition Date
1	Hyatt Regency Boston	Boston, MA	502	March 18, 2010
2	Hilton Checkers Los Angeles	Los Angeles, CA	193	June 1, 2010
3	Boston Marriott Newton	Newton, MA	430	July 30, 2010
4	Le Meridien San Francisco	San Francisco, CA	360	December 15, 2010
5	Homewood Suites Seattle Convention Center	Seattle, WA	195	May 2, 2011
6	W Chicago – City Center	Chicago, IL	403	May 10, 2011
7	Hotel Indigo San Diego Gaslamp Quarter	San Diego, CA	210	June 17, 2011
8	Courtyard Washington Capitol Hill/Navy Yard	Washington, DC	204	June 30, 2011
9	Hotel Adagio San Francisco, Autograph Collection	San Francisco, CA	171	July 8, 2011
10	Denver Marriott City Center	Denver, CO	613	October 3, 2011
11	Hyatt Herald Square New York	New York, NY	122	December 22, 2011
12	W Chicago – Lakeshore	Chicago, IL	520	August 21, 2012
13	Hyatt Regency Mission Bay Spa and Marina	San Diego, CA	429	September 7, 2012
14	The Hotel Minneapolis, Autograph Collection	Minneapolis, MN	222	October 30, 2012
15	Hyatt Place New York Midtown South	New York, NY	185	March 14, 2013
16	W New Orleans – French Quarter	New Orleans, LA	97	March 28, 2013
17	Le Meridien New Orleans	New Orleans, LA	410	April 25, 2013
18	Hyatt Centric Fisherman's Wharf	San Francisco, CA	316	May 31, 2013
19	Hyatt Centric Santa Barbara	Santa Barbara, CA	200	June 27, 2013
20	JW Marriott San Francisco Union Square	San Francisco, CA	337	October 1, 2014
21	Royal Palm South Beach Miami, a Tribute Portfolio Resort	Miami Beach, FL	393	March 9, 2015
22	Ace Hotel and Theater Downtown Los Angeles	Los Angeles, CA	182	April 30, 2015
			6,694	

Hotel Operating Metrics

We believe that the results of operations of our hotels are best explained by five key performance indicators: occupancy, ADR, RevPAR, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin. See the "Non-GAAP Financial Measures" section for additional information on Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin.

Occupancy is a major driver of room revenue, as well as other revenue categories, such as food and beverage and parking. Fluctuations in occupancy are accompanied by fluctuations in most categories of variable hotel operating expenses, such as utility costs and certain labor costs, such as housekeeping. ADR helps to drive room revenue as well; however, it does not have a direct effect on other revenue categories. Fluctuations in ADR are accompanied by fluctuations in limited categories of hotel operating expenses, such as management fees and franchise fees, since variable hotel operating expenses generally do not increase or decrease correspondingly. Thus, increases in RevPAR attributable to increases in occupancy typically result in varying levels of increases in Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin, while increases in RevPAR attributable to increases in ADR typically result in greater levels of increases in Adjusted Hotel EBITDA and Adjusted Hotel EBITDA Margin.

Executive Summary

Our hotel portfolio generated RevPAR growth of 2.3% in 2016 as compared to 2015, driven by an increase in occupancy of 2.6 percentage points offset by a decrease in ADR of 0.9%, which underperformed the U.S. industry average RevPAR growth of 3.2%, as reported by STR. Our hotel portfolio was impacted in 2016 by pricing pressure from corporate customers which we believe was related to U.S. corporate profits experiencing a decline for several consecutive quarters between 2015 and 2016 and

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by increases in lodging supply in certain of the major markets in which our hotels are located, specifically Chicago, New York, and Miami.

In 2016, we continued to aggressively asset manage our hotels, including working with our hotel operators to implement cost containment and cost reduction measures in order to mitigate the challenging revenue environment we were operating in. As a result, and despite only modest growth in RevPAR, we generated growth in Adjusted Hotel EBITDA of 3.2% and growth in Adjusted Hotel EBITDA Margin of 20 basis points in 2016 as compared to 2015. Several industry prognosticators, including STR, expect lodging supply growth to exceed lodging demand growth for the U.S. lodging industry in 2017 for the first time since 2009. In addition, we expect our hotel portfolio will again underperform the U.S. industry average RevPAR growth in 2017 as a result of the expected negative impact on lodging demand in San Francisco (where approximately 18% of our hotel rooms are located) resulting from the planned temporary closure and expansion of the Moscone Center as well the expected negative impact on customer demand at four of our hotels which are or will be undergoing guestroom renovations during the year.

Although we expect headwinds to continue in the near-term, we remain committed to maximizing cash flows at our hotels by driving optimum results and increasing operational efficiencies. Furthermore, we will continue to invest in our hotel portfolio to maintain its physical quality and positioning as well as pursue value-added projects. We believe our hotel portfolio, which is concentrated in the central business districts of top U.S. lodging markets, remains well positioned for future performance and long-term real estate value appreciation.

Results of Operations

Comparison of years ended December 31, 2016 and 2015

Results of operations for the year ended December 31, 2016 include the operating activity of 22 hotels for the full year, whereas the results of operations for the year ended December 31, 2015 include the operating activity of 20 hotels for the full year and two hotels for part of the year. We use the term “comparable hotel portfolio” to refer to those hotels owned for the entirety of the two periods being compared and the term “non-comparable hotel portfolio” to refer to those hotels either acquired or sold in either of the two periods being compared. The comparable hotel portfolio for the years ended December 31, 2016 and 2015 includes 20 of the 22 hotels owned as of December 31, 2016.

Revenues—Total revenue for the year ended December 31, 2016 was $619.7 million, of which $545.9 million was contributed by the comparable hotel portfolio and $73.8 million was contributed by the non-comparable hotel portfolio. Total revenue for the year ended December 31, 2015 was $582.6 million, of which $530.6 million was contributed by the comparable hotel portfolio and $52.0 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio was $15.3 million. We experienced increases in total revenue from our hotels located in Los Angeles, San Francisco, Boston, San Diego and Minneapolis, which were offset partially by decreases in total revenue from our hotels located in Chicago, Washington DC, New York, New Orleans, and Seattle. The Hyatt Regency Boston, the Le Meridien San Francisco and the Hyatt Centric Fisherman's Wharf experienced significant increases in total revenue due to the fact that the hotels were undergoing comprehensive renovations during a portion of the year ended December 31, 2015. We experienced favorable city wide events and convention calendar in San Francisco during the year ended December 31, 2016 as compared to the year ended December 31, 2015, which led to increased demand from group customers and contributed to the increase in total revenue at the hotels located in that market. Conversely, we experienced unfavorable city wide events and convention calendar in Chicago during the year ended December 31, 2016 as compared to the year ended December 31, 2015, which led to decreased demand from group customers and contributed to the decrease in total revenue at the hotels located in that market.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the year ended December 31, 2016 was $415.4 million, of which $369.9 million was contributed by the comparable hotel portfolio and $45.5 million was contributed by the non-comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the year ended December 31, 2015 was $391.5 million, of which $358.3 million was contributed by the comparable hotel portfolio and $33.2 million was contributed by the non-comparable hotel portfolio. The increase in total hotel operating expenses for the comparable hotel portfolio of $11.6 million was primarily a result of the increase in corresponding total revenue for the comparable hotel portfolio. Specifically driving the increase in total hotel operating expenses were rooms expense, food and beverage expense and the following indirect hotel operating expenses: general and administrative, sales and marketing, repairs and maintenance, franchise fees, and management fees. Credit card commissions (included within general and administrative), brand marketing fees (included within sales and marketing), franchise fees and management fees are all variable hotel operating expenses calculated as a percentage of revenue and, therefore, increased commensurately with the increase in total revenues.

Depreciation and amortization—Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was $74.7 million and $69.7 million, respectively. The increase in depreciation and amortization expense was primarily attributable

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to the acquisitions of the Royal Palm South Beach Miami, a Tribute Portfolio Resort in March 2015 and the Ace Hotel and Theater Downtown Los Angeles in April 2015.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the years ended December 31, 2016 and 2015 was $0.5 million.

Corporate general and administrative—Corporate general and administrative expense for the years ended December 31, 2016 and 2015 was $19.2 million and $18.0 million, respectively. Included in corporate general and administrative expense for the years ended December 31, 2016 and 2015 was $9.5 million and $7.6 million, respectively, of non-cash share-based compensation expense. The increase in corporate general and administrative expense is primarily related to an increase in non-cash share-based compensation expense related to restricted common shares granted to employees.

Hotel acquisition costs—Hotel acquisition costs for the year ended December 31, 2015 was $0.9 million. There were no hotel acquisitions occurring or hotel acquisition costs incurred during the year ended December 31, 2016.

Interest expense—Interest expense for the years ended December 31, 2016 and 2015 was $31.8 million and $31.9 million, respectively. The decrease is primarily related to the decrease in long-term debt outstanding during the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Gain on sale of hotel—Gain on sale of hotel for the year ended December 31, 2016 was $0.6 million and related to the sale of the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara in April 2016.

Income tax expense—Income tax expense for the years ended December 31, 2016 and 2015 was $2.0 million and $2.6 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the periods.

Comparison of years ended December 31, 2015 and 2014

Results of operations for the year ended December 31, 2015 include the operating activity of 20 hotels for the full year and two hotels for part of the year, whereas the results of operations for the year ended December 31, 2014 include the operating activity of 19 hotels for the full year and two hotels for part of the year. The comparable hotel portfolio for the years ended December 31, 2015 and 2014 includes 19 of the 22 hotels owned as of December 31, 2015.

Revenues—Total revenue for the year ended December 31, 2015 was $582.6 million, of which $485.8 million was contributed by the comparable hotel portfolio and $96.8 million was contributed by the non-comparable hotel portfolio. Total revenue for the year ended December 31, 2014 was $478.0 million, of which $461.6 million was contributed by the comparable hotel portfolio and $16.4 million was contributed by the non-comparable hotel portfolio. The increase in total revenue for the comparable hotel portfolio was $24.2 million. We experienced increased demand for rooms from corporate and leisure transient customers, particularly at our hotels located in Boston, Chicago, Denver, San Diego, Seattle, Los Angeles and Washington, DC, and from group customers at our hotels located in Chicago which was driven by a favorable convention calendar during the year ended December 31, 2015 as compared to the year ended December 31, 2014. Even beyond the strong market dynamics of Chicago during the year ended December 31, 2015, the W Chicago – Lakeshore experienced a significant increase in total revenue as a result of the comprehensive renovation that was undergoing during the year ended December 31, 2014. The Le Meridien New Orleans and the Hyatt Herald Square New York also experienced significant increases in total revenue due to the fact that the hotels were undergoing comprehensive renovations during the year ended December 31, 2014. The aforementioned increases in total revenue were offset partially by (1) decreases in total revenue from the Le Meridien San Francisco and the Hyatt Centric Fisherman's Wharf as a result of the two hotels undergoing guestroom renovations during the year ended December 31, 2015, which negatively impacted customer demand at those hotels, (2) a decrease in total revenue from the Hyatt Place New York Midtown South as a result of the New York market experiencing an increase in hotel room supply that was greater than the increase in hotel room demand during the year ended December 31, 2015, and (3) cancellations related to travel disruptions caused by harsher than normal winter weather in early 2015, particularly in Boston.

Hotel operating expenses—Hotel operating expenses, excluding depreciation and amortization, for the year ended December 31, 2015 was $391.5 million, of which $325.3 million was contributed by the comparable hotel portfolio and $66.2 million was contributed by the non-comparable hotel portfolio. Hotel operating expenses, excluding depreciation and amortization, for the year ended December 31, 2014 was $324.9 million, of which $313.7 million was contributed by the comparable hotel portfolio and $11.2 million was contributed by the non-comparable hotel portfolio. The increase in total hotel operating expenses for the comparable hotel portfolio of $11.6 million was primarily a result of the increase in corresponding total revenue for the comparable hotel portfolio offset partially by decreases in total hotel operating expenses at the Le Meridien San Francisco, the Hyatt Centric Fisherman's Wharf, and the Hyatt Place New York Midtown South commensurate with the decreases in total revenue at those hotels during the year ended December 31, 2015. Specifically driving the increase in total hotel operating expenses were rooms expense and the following indirect hotel operating expenses: general and administrative, sales and marketing, franchise fees, management fees, and property taxes. Credit card commissions (included within general and administrative), brand marketing fees (included within sales and marketing), franchise fees and management fees are all

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variable hotel operating expenses calculated as a percentage of revenue and therefore, increased commensurately with the increase in total revenues. The increase in property taxes related to increases in the assessed values at our hotels located in Chicago, Boston, New Orleans and Washington, DC. The aforementioned increases in total hotel operating expenses were offset partially by the recognition of a $1.2 million loss on impairment of intangible asset during the year ended December 31, 2014 related to the termination of a ground lease associated with the Denver Marriott City Center; no similar expense was incurred during the year ended December 31, 2015.

Depreciation and amortization—Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $69.7 million and $51.6 million, respectively. The increase in depreciation and amortization expense was primarily attributable to the acquisitions of the JW Marriott San Francisco Union Square in October 2014, the Royal Palm South Beach Miami, a Tribute Portfolio Resort in March 2015 and the Ace Hotel and Theater Downtown Los Angeles in April 2015.

Air rights contract amortization—Air rights contract amortization expense associated with the Hyatt Regency Boston for each of the years ended December 31, 2015 and 2014 was $0.5 million.

Corporate general and administrative—Corporate general and administrative expense for the years ended December 31, 2015 and 2014 was $18.0 million and $15.6 million, respectively. Included in corporate general and administrative expense for the years ended December 31, 2015 and 2014 was $7.6 million and $5.8 million, respectively, of non-cash share-based compensation expense. The increase in corporate general and administrative expense is primarily related to an increase in employee compensation expense, including non-cash share-based compensation expense, and professional services fees.

Hotel acquisition costs—Hotel acquisition costs for the years ended December 31, 2015 and 2014 was $0.9 million and $3.6 million, respectively. The decrease in hotel acquisition costs is directly related to higher hotel acquisition costs, specifically transfer taxes, related to the acquisition of the JW Marriott San Francisco Union Square during the year ended December 31, 2014 as compared to the two acquisitions during the year ended December 31, 2015.

Interest expense—Interest expense for the years ended December 31, 2015 and 2014 was $31.9 million and $27.4 million, respectively. The increase is primarily related to the increase in long-term debt outstanding, reflecting the use of debt to partially fund the acquisitions of the JW Marriott San Francisco Union Square in October 2014, the Royal Palm South Beach Miami, a Tribute Portfolio Resort in March 2015, and the Ace Hotel and Theater Downtown Los Angeles in April 2015.

Gain on sale of hotel—Gain on sale of hotel for the year ended December 31, 2014 was $7.0 million and related to the sale of the Courtyard Anaheim at Disneyland Resort on September 30, 2014.

Income tax expense—Income tax expense for the years ended December 31, 2015 and 2014 was $2.6 million and $0.5 million, respectively. Income tax expense is directly related to taxable income generated by our TRSs during the periods.

Hotel operating results

We assess the operating performance of our hotels irrespective of the hotel owner during the periods compared. We use the term "pro forma" to refer to metrics that include, or comparisons of metrics that are based on, the operating results of hotels under previous ownership for either a portion of or the entire period. Since two of our hotels owned as of December 31, 2016 were acquired during 2015, the key operating metrics below reflect the pro forma operating results for those hotels for the year ended December 31, 2015. Included in the following table are comparisons of occupancy, ADR, RevPAR, Adjusted Hotel EBITDA, and Adjusted Hotel EBITDA Margin for the hotel portfolio for the years ended December 31, 2016 and 2015 (in thousands, except for ADR and RevPAR):

	Year Ended December 31,		
	2016	2015[1]	Change
Occupancy	83.9 %	81.3 %	260 bps
ADR	$226.68	$228.70	(0.9)%
RevPAR	$190.12	$185.88	2.3%
Adjusted Hotel EBITDA	$203,681	$197,393	3.2%
Adjusted Hotel EBITDA Margin	32.9 %	32.7 %	20 bps

(1) Includes results of operations for certain hotels prior to our acquisition.

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Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical financial performance that are different from measures calculated and presented in accordance with U.S. generally accepted accounting principles. We report the following eight non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: (1) Hotel EBITDA, (2) Adjusted Hotel EBITDA, (3) Adjusted Hotel EBITDA Margin, (4) Corporate EBITDA, (5) Adjusted Corporate EBITDA, (6) Funds from operations (FFO), (7) FFO available to common shareholders, and (8) Adjusted FFO (AFFO) available to common shareholders.

Hotel EBITDA—Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, air rights amortization, corporate general and administrative, and hotel acquisition costs. The Trust believes that Hotel EBITDA provides investors a useful financial measure to evaluate the Trust’s hotel operating performance, excluding the impact of the Trust’s capital structure (primarily interest), the Trust’s asset base (primarily depreciation and amortization), and the Trust’s corporate-level expenses (corporate general and administrative and hotel acquisition costs).

Adjusted Hotel EBITDA—We further adjust Hotel EBITDA for certain additional recurring and non-recurring items. Specifically, we adjust for non-cash amortization of intangible assets and liabilities, including ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items, and gains (losses) from sales of real estate, which is a non-recurring item. We believe that Adjusted Hotel EBITDA provides investors with another useful financial measure to evaluate our hotel operating performance, excluding the effect of these non-cash items.

Adjusted Hotel EBITDA Margin—Adjusted Hotel EBITDA Margin is defined as Adjusted Hotel EBITDA as a percentage of total revenues. We believe that Adjusted Hotel EBITDA Margin provides investors another useful measure to evaluate our hotel operating performance.

The following table reconciles net income to Hotel EBITDA, Adjusted Hotel EBITDA, pro forma Adjusted Hotel EBITDA, and pro forma Adjusted Hotel EBITDA Margin for the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,	
	2016	2015
Net income	$76,706	$67,508
Add: Interest expense	31,846	31,856
Income tax expense	1,999	2,595
Depreciation and amortization	74,661	69,743
Air rights contract amortization	520	520
Corporate general and administrative	19,167	18,046
Hotel acquisition costs	—	854
Hotel EBITDA	204,899	191,122
Less: Non-cash amortization[1]	(620)	(571)
Gain on sale of hotel	(598)	—
Adjusted Hotel EBITDA	203,681	190,551
Add: Prior owner Hotel EBITDA[2]	—	6,842
Pro forma Adjusted Hotel EBITDA	$203,681	$197,393
Total revenue	$619,699	$582,624
Add: Prior owner total revenue[2]	—	20,286
Pro forma total revenue	$619,699	$602,910
Pro forma Adjusted Hotel EBITDA Margin	32.9 %	32.7 %

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, and unfavorable contract liability.
(2) Reflects results of operations for certain hotels prior to our acquisition.

Corporate EBITDA—Corporate EBITDA is defined as net income before interest, income taxes, and depreciation and amortization. We believe that Corporate EBITDA provides investors a useful financial measure to evaluate our operating

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performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

Adjusted Corporate EBITDA—We further adjust Corporate EBITDA for certain additional recurring and non-recurring items. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, including air rights contracts, ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items, and gains (losses) from sales of real estate, which is a non-recurring item. We believe that Adjusted Corporate EBITDA provides investors with another financial measure of our operating performance that provides for greater comparability of our core operating results between periods.

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

	Year Ended December 31,		
	2016	2015	2014
Net income	$76,706	$67,508	$60,954
Add: Interest expense	31,846	31,856	27,357
Income tax expense	1,999	2,595	535
Depreciation and amortization	74,661	69,743	51,567
Less: Interest income	—	—	(8)
Corporate EBITDA	185,212	171,702	140,405
Add: Hotel acquisition costs	—	854	3,622
Less: Non-cash amortization(1)	(101)	(51)	1,408
Gain on sale of hotel	(598)	—	(7,006)
Adjusted Corporate EBITDA	$184,513	$172,505	$138,429

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, unfavorable contract liability, and air rights contract.

FFO—We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which defines FFO as net income (calculated in accordance with GAAP), excluding depreciation and amortization, impairment charges of depreciable real estate, gains (losses) from sales of real estate, the cumulative effect of changes in accounting principles, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most industry investors consider presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. By excluding the effect of depreciation and amortization and gains (losses) from sales of real estate, both of which are based on historical cost accounting and which may be of lesser significance in evaluating current performance, we believe that FFO provides investors a useful financial measure to evaluate our operating performance.

FFO available to common shareholders—We reduce FFO for preferred share dividends and dividends declared on and earnings allocated to unvested time-based awards (consistent with adjustments required by GAAP in reporting net income available to common shareholders and related per share amounts). FFO available to common shareholders provides investors another financial measure to evaluate our operating performance after taking into account the interests of holders of our preferred shares and unvested time-based awards.

AFFO available to common shareholders—We further adjust FFO available to common shareholders for certain additional recurring and non-recurring items that are not in NAREIT's definition of FFO. Specifically, we adjust for hotel acquisition costs and non-cash amortization of intangible assets and liabilities, including air rights contracts, ground lease assets and unfavorable contract liabilities, deferred franchise costs, and deferred key money, all of which are recurring items. We believe that AFFO available to common shareholders provides investors with another financial measure of our operating performance that provides for greater comparability of our core operating results between periods.

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The following table reconciles net income to FFO, FFO available to common shareholders, and AFFO available to common shareholders for the years ended December 31, 2016, 2015 and 2014 (in thousands, except per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Net income	$76,706	$67,508	$60,954
Add: Depreciation and amortization	74,661	69,743	51,567
Less: Gain on sale of hotel	(598)	—	(7,006)
FFO	150,769	137,251	105,515
Less: Preferred share dividends	(9,688)	(9,688)	(9,688)
Dividends declared on unvested time-based awards	(561)	(560)	(499)
Undistributed earnings allocated to unvested time- based awards	—	—	—
FFO available to common shareholders	140,520	127,003	95,328
Add: Hotel acquisition costs	—	854	3,622
Less: Non-cash amortization(1)	(101)	(51)	1,408
AFFO available to common shareholders	$140,419	$127,806	$100,358
FFO available per common share:			
Basic	$2.39	$2.21	$1.89
Diluted	$2.39	$2.19	$1.87
AFFO available per common share:			
Basic	$2.39	$2.22	$1.99
Diluted	$2.39	$2.21	$1.97

(1) Reflects non-cash amortization of ground lease asset, deferred franchise costs, deferred key money, unfavorable contract liability, and air rights contract.

None of Hotel EBITDA, Adjusted Hotel EBITDA, Corporate EBITDA, Adjusted Corporate EBITDA, FFO, FFO available to common shareholders, or AFFO available to common shareholders represent cash generated from operating activities as determined by GAAP, nor shall any of these measures be considered as an alternative to GAAP net income (loss), as an indication of our financial performance, or to GAAP cash flow from operating activities, as a measure of liquidity. In addition, Hotel EBITDA, Adjusted Hotel EBITDA, Corporate EBITDA, Adjusted Corporate EBITDA, FFO, FFO available to common shareholders, and AFFO available to common shareholders are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Sources and Uses of Cash

For the year ended December 31, 2016, net cash flows from operating activities were $159.6 million; net cash flows used in investing activities were $25.8 million, including $32.0 million for improvements and additions to our hotels, offset by proceeds of $2.0 million from the sale of the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara; and net cash flows used in financing activities were $141.3 million, including the prepayment of two mortgage loans secured by the Hyatt Regency Boston and the Courtyard Washington Capitol Hill/Navy Yard totaling $122.2 million, net repayment of $50.0 million under our revolving credit facility, $10.9 million in scheduled principal payments on mortgage debt and $104.2 million in dividend payments to common and preferred shareholders, offset by proceeds of $150.0 million from the issuance of mortgage debt. As of December 31, 2016, we had cash and cash equivalents of $43.1 million.

Liquidity and Capital Resources

We expect our primary source of cash to meet operating requirements, including payment of dividends in accordance with the REIT requirements of the U.S. federal income tax laws, payment of interest on any borrowings and funding of any capital expenditures, will be from our hotels’ results of operations and existing cash and cash equivalent balances. We currently expect that our operating cash flows will be sufficient to fund our continuing operations. We also expect to use existing restricted cash

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balances and borrowings under our revolving credit facility to partially fund any capital expenditures. We intend to incur indebtedness to supplement our investment capital and to maintain flexibility to respond to industry conditions and opportunities. We are targeting an overall debt level not to exceed 40% of the aggregate value of all of our hotels, as calculated in accordance with our revolving credit facility; as of December 31, 2016, our overall debt level was 32.0% under this calculation.

We expect to meet long-term liquidity requirements, such as new hotel acquisitions and scheduled debt maturities, through additional secured and unsecured borrowings and the issuance of equity securities. Our ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about us. We will continue to analyze alternative sources of capital in an effort to minimize our capital costs and maximize our financial flexibility.

We expect to continue declaring distributions to shareholders, as required to maintain our REIT status, although no assurances can be made that we will continue to generate sufficient income to distribute similar aggregate amounts in the future. The per share amounts of future distributions will depend on the number of our common and preferred shares outstanding from time to time and will be determined by our board of trustees following its periodic review of our financial performance and capital requirements, and the terms of our existing borrowing arrangements.

Our mortgage loan secured by the Royal Palm South Beach Miami, a Tribute Portfolio Resort matures in March 2017. We expect to repay the outstanding principal balance of $125.0 million with proceeds from a borrowing under our revolving credit facility.

As of the date of this filing, we have approximately $38.0 million of cash and cash equivalents, approximately $36.1 million of restricted cash, and total borrowing availability of $300.0 million under our revolving credit facility, of which $215.0 million remained available. See the notes to our consolidated financial statements for additional information relating to our revolving credit facility and other long-term debt.

Capital Expenditures

We maintain each hotel in good repair and condition and in conformity with applicable laws and regulations and in accordance with the franchisor's standards and the agreed-upon requirements in our management and loan agreements. The cost of all such routine improvements and alterations will be paid out of FF&E reserves, which will be funded by a portion of each hotel's gross revenues. Routine capital expenditures will be administered by the management companies. However, we will have approval rights over the capital expenditures as part of the annual budget process. From time to time, certain of our hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. As of December 31, 2016, none of our hotels were undergoing comprehensive renovations. In addition, often after we acquire a hotel, we are required to complete a property improvement plan ("PIP") in order to bring the hotel up to the respective franchisor's standards. If permitted by the terms of the management agreement, funding for a renovation will first come from the FF&E reserve. To the extent that the FF&E reserve is not adequate to cover the cost of the renovation, we will fund the remaining portion of the renovation with cash and cash equivalents or available borrowings under our revolving credit facility.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2016, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands). There were no other material off-balance sheet arrangements at December 31, 2016.

	Payments Due by Period				
Contractual Obligations	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Revolving credit facility, including interest[1]	$63,186	$1,411	$ 61,775	$—	$—
Term loan, including interest[1]	126,148	126,148	—	—	—
Other mortgage loans, including interest	703,452	35,034	71,544	182,347	414,527
Corporate office leases	1,660	297	585	618	160

Ground leases[2]	209,588	4,101	8,201	8,201	189,085
	$ 1,104,034	$ 166,991	$ 142,105	$ 191,166	$ 603,772

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(1) Assumes no additional borrowings and interest payments are based on the interest rate in effect at December 31, 2016. Also assumes that no extension options are exercised. See the notes to our interim consolidated financial statements for additional information relating to our revolving credit facility and term loan.

(2) The ground leases for the Hyatt Regency Mission Bay Spa and Marina and the JW Marriott San Francisco Union Square provide for the greater of base or percentage rent, subject to potential increases over the term of the leases. Amounts assume only base rent for all periods presented and do not assume any adjustments for potential increases.

Inflation

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

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns. For non-resort properties, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season. For resort properties, demand is generally higher in the winter months. We expect that our operations will generally reflect non-resort seasonality patterns. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, expected to be greatly influenced by overall economic cycles.

Critical Accounting Policies

We believe that the following critical accounting policies affect the most significant judgments and estimates used in the preparation of our consolidated financial statements:

Investments in Hotels—We allocate the purchase prices of hotels acquired based on the fair value of the property, FF&E, and identifiable intangible assets acquired and the fair value of the liabilities assumed. In making estimates of fair value for
purposes of allocating the purchase price, we utilize a number of sources of information that are obtained in connection with the acquisition of a hotel, including valuations performed by independent third parties and cost segregation studies. We also consider information obtained about each hotel as a result of our pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired and liabilities assumed. Hotel acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, are expensed in the period incurred.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings and building improvements and three to ten years for FF&E. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Replacements and improvements at the hotels are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from our accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Intangible assets and liabilities are recorded on non-market contracts, including air rights, lease, management, and franchise agreements, assumed as part of the acquisition of certain hotels. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts assumed and our estimate of the fair market contract rates for corresponding contracts measured over a period equal to the remaining non-cancelable term of the contracts assumed. No value is allocated to market contracts. Intangible assets and liabilities are amortized using the straight-line method over the remaining non-cancelable term of the related contracts.

We review our hotels for impairment whenever events or changes in circumstances indicate that the carrying value of the hotels may not be recoverable. Events or circumstances that may cause us to perform a review include, but are not limited to, adverse changes in the demand for lodging at our hotels due to declining national or local economic conditions and/or new hotel construction in markets where our hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of an investment in a hotel exceed the hotel's carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying value to the estimated fair market value is recorded and an impairment loss is recognized.

We will classify a hotel as held for sale in the period in which we made the decision to dispose of our hotel, a binding agreement to purchase our hotel has been signed under which the buyer has committed a significant amount of nonrefundable cash, and no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner. If these criteria are met, depreciation and amortization of our hotel will cease and an impairment loss will be recognized if the fair value of our hotel, less the costs to sell, is lower than the carrying amount of the hotel. If the sale represents a strategic shift that has (or will have) a major effect on our operations and financial results, we will classify our loss, together with the related

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operating results, as discontinued operations in the consolidated statements of operations and will classify the related assets and liabilities as held for sale in the consolidated balance sheets.

Share-Based Compensation—From time to time, we grant restricted share awards to employees and trustees. To date, we have granted two types of restricted share awards: (1) time-based awards and (2) performance-based awards.

We measure share-based compensation expense for the restricted share awards based on the fair value of the awards on the date of grant. The fair value of time-based awards is determined based on the closing trading price of our common shares on the measurement date, which is generally the date of grant. The fair value of performance-based awards is determined using a Monte Carlo simulation performed by an independent third party. A Monte Carlo simulation requires the use of a number of assumptions, including historical volatility and correlation of the price of our common shares and the price of the common shares of our peer group, a risk-free rate of return, and an expected term.

For time-based awards, share-based compensation expense is recognized on a straight-line basis over the life of the entire award. For performance-based awards, share-based compensation expense is recognized over the requisite service period for each award. For both time-based awards and performance-based awards, once the total amount of share-based compensation expense is determined on the date of the grant, no adjustments are made to the amount recognized each period. No share-based compensation expense is recognized for awards for which employees or trustees do not render the requisite service.

Revenue Recognition—Hotel revenues, including room, food and beverage, and other hotel department revenues, such as parking, marina, theater, telephone, and gift shop sales, are recognized as the related goods and services are provided.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued updated accounting guidance for recognition of revenue from contracts with customers. The comprehensive new accounting guidance will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB delayed the effective date of the new accounting guidance to be for interim and annual periods beginning on or after December 15, 2017. The new accounting guidance is to be applied on a retrospective or a modified retrospective basis. We will adopt the new accounting guidance on January 1, 2018, but have not yet determined the method of adoption. We do not believe that the adoption of this guidance will have a material impact on the consolidated financial statements.

In April 2015, the FASB issued updated accounting guidance for the presentation of debt issuance costs in the consolidated balance sheets. Under the new accounting guidance, debt issuance costs are shown as a direct deduction from the related debt liability rather than as an asset in the consolidated balance sheet. The amortization of the costs will continue to be included in interest expense in the consolidated statement of operations. We adopted the new accounting guidance on January 1, 2016 and applied it on a retrospective basis. As a result, $6.5 million of unamortized deferred financing costs, which was previously presented as an asset as of December 31, 2015, is now presented within long-term debt. This reclassification had no effect on previously reported results of operations or retained earnings. We do not believe that the adoption of this guidance has a material impact on the consolidated financial statements.

In November 2016, the FASB issued updated accounting guidance which requires the consolidated statements of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash. Therefore, restricted cash should be included within cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 and is to be applied on a retrospective basis. We will adopt the new accounting guidance on January 1, 2018. The adoption of this guidance will change the presentation of restricted cash in the consolidated statements of cash flows, however, we do not believe that the adoption of this guidance will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued updated accounting guidance to clarify the definition of a business. The new accounting guidance adds further guidance that assists entities in evaluating whether a transaction should be accounted for as an acquisition of (or disposal of) an asset or a business. Under the new accounting guidance, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 (early adoption is permitted) and is to be applied prospectively. We will adopt the new accounting guidance on January 1, 2018. We believe that the adoption of this guidance may have a material impact on our results of operations to the extent we complete any future acquisitions.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We earn interest income primarily from cash and cash equivalent balances. Based on our cash and cash equivalents as of December 31, 2016, if interest rates were to increase or decrease by 1.00%, our interest income would increase or decrease by approximately $0.4 million annually.

Amounts borrowed under our revolving credit facility currently bear interest at variable rates based on LIBOR plus 1.55% - 2.30% (the spread over LIBOR based on our consolidated leverage ratio). If prevailing LIBOR on any outstanding borrowings under our revolving credit facility were to increase or decrease by 1.00%, the increase or decrease in interest expense on our debt would increase or decrease future earnings and cash flows by approximately $0.6 million annually, assuming that the amount outstanding under our revolving credit facility was to remain at $60.0 million, the balance at December 31, 2016.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Statements on page F-1.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures—Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in Internal Controls—There was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during our most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting—Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorization of our management and trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our consolidated financial statements.

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

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of

Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), we concluded that our internal control over financial reporting was effective as of December 31, 2016. The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their report which appears on page F-2 of this Form 10-K.

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Item 9B. Other Information
None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our executive officers as of the date of the filing of this Form 10-K is presented below. Other information required pursuant to this item is incorporated by reference to our 2017 proxy statement under the captions "Proposal 1 Election of Trustees—Trustee Qualifications," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance and Board Matters."

James L. Francis, 54, is our President and Chief Executive Officer and a Trustee, positions he has held since our formation. Prior to co-founding the Trust, Mr. Francis served as the President and Chief Executive Officer and a director of Highland Hospitality Corporation ("Highland"), positions that he held from Highland's IPO in December 2003 to its sale in July 2007. Following the sale of Highland, Mr. Francis served as a consultant to the affiliate of JER Partners that acquired Highland until September 2008. Since September 2008, until our formation, Mr. Francis was a private investor. From June 2002 until joining Highland in December 2003, Mr. Francis served as the Chief Operating Officer, Chief Financial Officer and Treasurer of Barceló Crestline Corporation, and served as Executive Vice President and Chief Financial Officer of Crestline Capital Corporation, prior to its acquisition by Barceló, from December 1998 to June 2002. Prior to the spin-off of Crestline Capital from Host Hotels & Resorts, Inc. (formerly Host Marriott Corporation), Mr. Francis held various finance and strategic planning positions with Host Marriott and Marriott International, Inc. From June 1997 to December 1998, Mr. Francis held the position of Assistant Treasurer and Vice President Corporate Finance for Host Marriott, where he was responsible for Host Marriott's corporate finance function, business strategy and investor relations. Over a period of ten years, Mr. Francis served in various capacities with Marriott International's lodging business, including Vice President of Finance for Marriott Lodging from 1995 to 1997; Brand Executive, Courtyard by Marriott from 1994 to 1995; Controller for Courtyard by Marriott and Fairfield Inn from 1993 to 1994; Director of Finance and Strategic Planning for Courtyard by Marriott and Fairfield Inn from 1991 to 1993; and Director of Hotel Development Finance from 1987 to 1991. Mr. Francis received his B.A. in Economics and Business from Western Maryland College and earned an M.B.A. in Finance and Accounting from Vanderbilt University. Mr. Francis also currently serves on the board of trustees, as a member of the nominating and corporate governance committee, and as the compensation committee chairman for Gramercy Property Trust (NYSE: GPT), a publicly traded REIT focused on acquiring, owning, and operating industrial and office properties, and from 2013 until its merger in December 2015 with Gramercy Property Trust Inc., served as a member of the board of trustees of Chambers Street Properties.

Douglas W. Vicari, 57, is our Executive Vice President and Chief Financial Officer and a Trustee, positions he has held since our formation. Prior to co-founding the Trust, Mr. Vicari served as a principal with Paramount Hotel Group, a hotel owner, developer and operator, from January 2009 to June 2009. Previously, Mr. Vicari served as Executive Vice President and Chief Financial Officer of Highland from September 2003 until its sale in July 2007. Prior to joining Highland, Mr. Vicari served as Senior Vice President and Chief Financial Officer of Prime Hospitality Corp., a former NYSE-listed company acquired by an affiliate of The Blackstone Group in 2004, from August 1998 to July 2003, and also served on the board of directors of Prime Hospitality Corp. from May 1999 to July 2003. Prior to his appointment as Chief Financial Officer, he served as Vice President and Treasurer of Prime Hospitality Corp. from January 1991 to July 1998, and was an instrumental member of the management team that led the company out of bankruptcy in July 1992. From 1986 to 1991, Mr. Vicari was Director of Budgeting and Financial Planning for Prime Hospitality Corp, and was responsible for all budgeting, planning and forecasting. Prior to his tenure at Prime Hospitality Corp., Mr. Vicari held numerous management positions at Combustion Engineering (now a part of ABB Group) from 1981 to 1986. Mr. Vicari also served on the board of directors and as the audit committee chairman for Thunderbird Resorts Inc. (Euronext: TBIRD), a publicly traded gaming and lodging company, from 2007 to 2016. Mr. Vicari earned a B.S. in Accounting from the College of New Jersey and received his M.B.A. in Finance from Fairleigh Dickinson University.

D. Rick Adams, 53, is our Executive Vice President and Chief Operating Officer, positions he has held since March 2015. Prior to his appointment as Executive Vice President and Chief Operating Officer, he served as Executive Vice President and Chief Investment Officer from February 2014 to February 2015, and as Senior Vice President and Chief Investment Officer from November 2009 to January 2014. Prior to joining the Trust, Mr. Adams served as Senior

Vice President of Asset Management for Highland from September 2004 until its sale in July 2007. Following the sale of Highland and until October 2009, Mr. Adams continued to serve as Senior Vice President and Head of Asset Management for the affiliate of JER Partners that acquired Highland. From October 1992 to September 2004, Mr. Adams served as Vice President of Regional Operations and Development Officer for the B.F. Saul Company, a privately owned real estate company located in Washington, DC that specializes in commercial real estate and hotel management and development. Prior to his tenure at B.F. Saul, from 1986 until September 1992, Mr. Adams held numerous operational and franchise development management positions at Holiday Inn Worldwide, known today as InterContinental Hotels Group PLC. Mr. Adams received a B.S. in Management from Indiana University.

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Graham J. Wootten, 43, is our Senior Vice President, Chief Accounting Officer and Secretary, positions he has held since February 2010. Previously, Mr. Wootten served in several accounting roles, including Vice President and Controller, at Highland from December 2003 until its sale in July 2007 to an affiliate of JER Partners. Following the sale of Highland and until February 2010, Mr. Wootten served in finance and accounting roles for the affiliate of JER Partners that acquired Highland, last serving as its Chief Financial Officer. Prior to joining Highland, Mr. Wootten held various audit positions, including Audit Senior Manager, for PricewaterhouseCoopers LLP from 1995 until 2003. Mr. Wootten holds a BSBA in accounting from John Carroll University and is a Certified Public Accountant.

Item 11. Executive Compensation

Information required pursuant to this item is incorporated by reference to our 2017 proxy statement under the captions "Executive Compensation" and "Corporate Governance and Board Matters."

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

Information required pursuant to this item is incorporated by reference to our 2017 proxy statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation—Equity Plan Information."

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

Information required pursuant to this item is incorporated by reference to our 2017 proxy statement under the captions "Certain Relationships and Related Transactions and Legal Proceedings" and "Corporate Governance and Board Matters."

Item 14. Principal Accounting Fees and Services

Information required pursuant to this item is incorporated by reference to our 2017 proxy statement under the caption "Proposal 2 Ratification of Independent Registered Public Accountants."

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PART IV
Item 15. Exhibits, Financial Statement Schedules
1. Financial Statements
Included herein at pages F-1 through F-22.
2. Financial Statement Schedules
The following financial statement schedule is included herein at page F-23:
Schedule III—Real Estate and Accumulated Depreciation
All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.
3. Exhibits
The following exhibits are filed as part of this Form 10-K:

Exhibit Number	Description of Exhibit
3.1+	Articles of Amendment and Restatement of Declaration of Trust of Registrant
3.1.1	Articles Supplementary to the Articles of Amendment and Restatement of Declaration of Trust (incorporated by reference to Exhibit 3.1.1 to the Registrant's Current Report on Form 8-K filed on April 1, 2014)
3.1.2	Articles Supplementary relating to the Series A Cumulative Redeemable Preferred Shares (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 13, 2012)
3.2	Amended and Restated Bylaws, as amended through December 15, 2016 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on December 15, 2016)
10.1	Employment Agreement between Registrant and James L. Francis, dated January 27, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014)*
10.2	Employment Agreement between Registrant and Douglas W. Vicari, dated January 27, 2015 (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014)*
10.3	Employment Agreement between Registrant and D. Rick Adams, dated January 27, 2015 (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014)*
10.4	Employment Agreement between Registrant and Graham J. Wootten, dated January 27, 2015 (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2014)*
10.5+	Form of Restricted Share Award Agreement for Executive Officers*
10.6+	Form of Restricted Share Agreement for Trustees*

10.7+	Form of Indemnification Agreement between Registrant and its Trustees and Executive Officers
10.8	Limited Partnership Agreement of Chesapeake Lodging, L.P. (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Registrant’s Registration Statement on Form S-11 filed on October 5, 2010)
10.8.1	Amendment No. 1 to the Limited Partnership Agreement of Chesapeake Lodging, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 13, 2012)
10.9	Chesapeake Lodging Trust Equity Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form S-8 filed on January 27, 2010)*
10.9.1	Amendment to the Chesapeake Lodging Trust Equity Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 30, 2012)*
10.10	Promissory Note, dated July 27, 2012, by CHSP Denver LLC in favor of Western National Life Insurance Company (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2012)
10.11	Fee and Leasehold Deed of Trust and Security Agreement by CHSP Denver LLC, as grantor, to the Public Trustee of the (City and) County of Denver, Colorado, as trustee, for the use and benefit of Western National Life Insurance Company, as beneficiary, dated July 25, 2012 (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2012)
10.12	Loan Agreement, dated July 11, 2013, by and between CHSP San Francisco LLC, as borrower, and PNC Bank, National Association, as lender (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 2013)
10.13	Loan Agreement, dated July 11, 2013, by and between CHSP Chicago LLC, as borrower, and Goldman Sachs Mortgage Company, as lender (incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 2013)
10.14	Loan Agreement, dated July 3, 2014, by and between CHSP 31st Street LLC and CHSP 36th Street LLC, as borrowers, and Goldman Sachs Mortgage Company, as lender (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 2014)
10.15	Fourth Amended and Restated Credit Agreement, dated March 4, 2015, by and among Chesapeake Lodging, L.P., as borrower, the financial institutions party thereto and their assignees under section 13.6, as lenders, and Wells Fargo Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.6 to the Registrant’s Quarterly Report on Form 10-Q for the period ended March 31, 2015)
10.16	Amended and Restated Loan Agreement, dated March 9, 2015, by and among RP Hotel Holdings, LLC, as borrower, and the financial institutions party thereto and their assignees under section 12.12, as lenders, and Wells Fargo Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.7 to the Registrant’s Quarterly Report on Form 10-Q for the period ended March 31, 2015)

10.17	Loan Agreement, dated June 23, 2016, by and between CHSP Boston II LLC, as borrower, and Metropolitan Life Insurance Company, as lender (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the period ended June 30, 2016)
12.1†	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Share Dividends
21.1†	List of Subsidiaries of Registrant
23.1†	Consent of Ernst & Young LLP
31.1†	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2†	Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer
32.1†	Section 1350 Certification of President and Chief Executive Officer
32.2†	Section 1350 Certification of Executive Vice President and Chief Financial Officer
101.INS XBRL†	Instance Document
101.SCH XBRL†	Taxonomy Extension Schema Document
101.CAL XBRL†	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL†	Taxonomy Extension Definition Linkbase Document
101.LAB XBRL†	Taxonomy Extension Label Linkbase Document
101.PRE XBRL†	Taxonomy Extension Presentation Linkbase Document
†	Filed herewith
+	Incorporated by reference to the same-numbered exhibit to Amendment No. 2 to the Registrant’s IPO Registration Statement on Form S-11 filed on November 24, 2009
*	Denotes management or trustee compensation plan or arrangement

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Item 16. Form 10-K Summary
None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CHESAPEAKE LODGING TRUST

Date: February 22, 2017 By: /S/ DOUGLAS W. VICARI
Douglas W. Vicari
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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

Signature	Title	Date
/s/ THOMAS A. NATELLI Thomas A. Natelli	Chairman of the Board of Trustees	February 22, 2017
/s/ JAMES L. FRANCIS James L. Francis	President, Chief Executive Officer and Trustee (Principal Executive Officer)	February 22, 2017
/s/ DOUGLAS W. VICARI Douglas W. Vicari	Executive Vice President, Chief Financial Officer, and Trustee (Principal Financial Officer)	February 22, 2017
/s/ THOMAS D. ECKERT Thomas D. Eckert	Trustee	February 22, 2017
/s/ GEORGE F. MCKENZIE George F. McKenzie	Trustee	February 22, 2017
/s/ JOHN W. HILL John W. Hill	Trustee	February 22, 2017
/s/ JEFFREY D. NUECHTERLEIN Jeffrey D. Nuechterlein	Trustee	February 22, 2017
/s/ GRAHAM J. WOOTTEN Graham J. Wootten	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 22, 2017

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CHESAPEAKE LODGING TRUST
INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of Chesapeake Lodging Trust:

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

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

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

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

In our opinion, Chesapeake Lodging Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Chesapeake Lodging Trust as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of Chesapeake Lodging Trust and our report dated February 22, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
McLean, Virginia
February 22, 2017

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Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of Chesapeake Lodging Trust:

We have audited the accompanying consolidated balance sheets of Chesapeake Lodging Trust (the "Trust") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also include the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Chesapeake Lodging Trust's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 22, 2017

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CHESAPEAKE LODGING TRUST
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2016	December 31, 2015
ASSETS		
Property and equipment, net	$1,882,869	$1,926,944
Intangible assets, net	35,835	36,414
Cash and cash equivalents	43,060	50,544
Restricted cash	36,128	40,361
Accounts receivable, net of allowance for doubtful accounts of $157 and $172, respectively	19,966	15,603
Prepaid expenses and other assets	17,516	17,900
Total assets	$2,035,374	$2,087,766
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt	$737,310	$769,748
Accounts payable and accrued expenses	64,581	62,683
Other liabilities	44,808	45,778
Total liabilities	846,699	878,209
Commitments and contingencies (Note 14)		
Preferred shares, $.01 par value; 100,000,000 shares authorized; Series A Cumulative Redeemable Preferred Shares; 5,000,000 shares issued and outstanding, respectively ($127,422 liquidation preference)	50	50
Common shares, $.01 par value; 400,000,000 shares authorized; 59,671,964 shares and 59,659,522 shares issued and outstanding, respectively	597	597
Additional paid-in capital	1,304,364	1,297,877
Cumulative dividends in excess of net income	(116,297)	(88,675)
Accumulated other comprehensive loss	(39)	(292)
Total shareholders' equity	1,188,675	1,209,557
Total liabilities and shareholders' equity	$2,035,374	$2,087,766

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

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CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2016	2015	2014
REVENUE			
Rooms	$465,796	$441,141	$364,727
Food and beverage	125,987	117,171	94,307
Other	27,916	24,312	18,946
Total revenue	619,699	582,624	477,980
EXPENSES			
Hotel operating expenses:			
Rooms	108,292	100,245	84,445
Food and beverage	92,075	87,625	71,816
Other direct	6,275	7,109	8,032
Indirect	208,756	196,523	160,589
Total hotel operating expenses	415,398	391,502	324,882
Depreciation and amortization	74,661	69,743	51,567
Air rights contract amortization	520	520	520
Corporate general and administrative	19,167	18,046	15,557
Hotel acquisition costs	—	854	3,622
Total operating expenses	509,746	480,665	396,148
Operating income	109,953	101,959	81,832
Interest income	—	—	8
Interest expense	(31,846)	(31,856)	(27,357)
Gain on sale of hotel	598	—	7,006
Income before income taxes	78,705	70,103	61,489
Income tax expense	(1,999)	(2,595)	(535)
Net income	76,706	67,508	60,954
Preferred share dividends	(9,688)	(9,688)	(9,688)
Net income available to common shareholders	$67,018	$57,820	$51,266
Net income available per common share:			
Basic	$1.13	$1.00	$1.01
Diluted	$1.13	$0.99	$1.00

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

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CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$76,706	$67,508	$60,954
Other comprehensive income (loss):			
Unrealized losses on cash flow hedge instruments	(331)	(1,065)	(9)
Reclassification of unrealized losses on cash flow hedge instruments to interest expense	584	773	76
Comprehensive income	$76,959	$67,216	$61,021

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

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CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balances at December 31, 2013	5,000,000	$ 50	49,574,005	$ 496	$ 991,417	$ (45,339)	$ (67)	$ 946,557
Sale of common shares, net of underwriting fees and offering costs	—	—	4,830,000	48	143,880	—	—	143,928
Repurchase of common shares	—	—	(79,417)	(1)	(2,704)	—	—	(2,705)
Issuance of restricted common shares	—	—	491,564	5	(5)	—	—	—
Issuance of unrestricted common shares	—	—	2,662	—	80	—	—	80
Forfeiture of restricted common shares	—	—	(750)	—	—	—	—	—
Amortization of deferred compensation	—	—	—	—	5,723	—	—	5,723
Declaration of dividends on common shares	—	—	—	—	—	(62,934)	—	(62,934)
Declaration of dividends on preferred shares	—	—	—	—	—	(9,688)	—	(9,688)
Net income	—	—	—	—	—	60,954	—	60,954
Other comprehensive income	—	—	—	—	—	—	67	67
Balances at December 31, 2014	5,000,000	$ 50	54,818,064	$ 548	$ 1,138,391	$ (57,007)	$ —	$ 1,081,982
Sale of common shares, net of underwriting fees and offering costs	—	—	4,600,000	46	153,632	—	—	153,678
Repurchase of common shares	—	—	(47,804)	—	(1,787)	—	—	(1,787)
Issuance of restricted common shares	—	—	292,270	3	(3)	—	—	—
Issuance of unrestricted common shares	—	—	2,926	—	83	—	—	83
Forfeiture of restricted common shares	—	—	(5,934)	—	—	—	—	—
Amortization of deferred compensation	—	—	—	—	7,561	—	—	7,561
Declaration of dividends on common shares	—	—	—	—	—	(89,488)	—	(89,488)
Declaration of dividends on preferred shares	—	—	—	—	—	(9,688)	—	(9,688)
Net income	—	—	—	—	—	67,508	—	67,508

Other comprehensive loss	—	—	—	—	—	—	(292)	(292)
Balances at December 31, 2015	5,000,000	$ 50	59,659,522	$ 597	$ 1,297,877	$ (88,675)	$ (292)	$ 1,209,557
Repurchase of common shares	—	—	(117,129)	(1)	(3,019)	—	—	(3,020)
Issuance of restricted common shares	—	—	448,146	4	(4)	—	—	—
Issuance of unrestricted common shares	—	—	3,467	—	85	—	—	85
Forfeiture of restricted common shares	—	—	(322,042)	(3)	3	1,516	—	1,516
Amortization of deferred compensation	—	—	—	—	9,422	—	—	9,422
Declaration of dividends on common shares	—	—	—	—	—	(96,156)	—	(96,156)
Declaration of dividends on preferred shares	—	—	—	—	—	(9,688)	—	(9,688)
Net income	—	—	—	—	—	76,706	—	76,706
Other comprehensive income	—	—	—	—	—	—	253	253
Balances at December 31, 2016	5,000,000	$ 50	59,671,964	$ 597	$ 1,304,364	$ (116,297)	$ (39)	$ 1,188,675

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

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CHESAPEAKE LODGING TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$76,706	$67,508	$60,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,661	69,743	51,567
Air rights contract amortization	520	520	520
Deferred financing costs amortization	1,850	1,882	2,448
Gain on sale of hotel	(598)	—	(7,006)
Share-based compensation	9,507	7,644	5,803
Other	(796)	(781)	677
Changes in assets and liabilities:			
Accounts receivable, net	(4,363)	(679)	1,277
Prepaid expenses and other assets	329	(4,154)	(342)
Accounts payable and accrued expenses	1,801	4,069	3,766
Other liabilities	(47)	5,961	(30)
Net cash provided by operating activities	159,570	151,713	119,634
Cash flows from investing activities:			
Acquisition of hotels, net of cash acquired	—	(255,249)	(152,292)
Disposition of hotels, net of cash sold	2,028	—	31,822
Improvements and additions to hotels	(32,015)	(36,782)	(87,182)
Change in restricted cash	4,233	3,026	(2,164)
Net cash used in investing activities	(25,754)	(289,005)	(209,816)
Cash flows from financing activities:			
Proceeds from sale of common shares, net of underwriting fees	—	153,962	144,320
Payment of offering costs related to sale of common shares	—	(284)	(392)
Borrowings under revolving credit facility	185,000	330,000	100,000
Repayments under revolving credit facility	(235,000)	(220,000)	(100,000)
Proceeds from issuance of mortgage debt	150,000	—	90,000
Principal prepayments on mortgage debt	(122,220)	—	—
Scheduled principal payments on mortgage debt	(10,940)	(10,271)	(69,837)
Payment of deferred financing costs	(952)	(2,311)	(2,011)
Payment of dividends to common shareholders	(94,480)	(81,111)	(58,892)
Payment of dividends to preferred shareholders	(9,688)	(9,688)	(9,688)
Repurchase of common shares	(3,020)	(1,787)	(2,705)
Net cash provided by (used in) financing activities	(141,300)	158,510	90,795
Net increase (decrease) in cash	(7,484)	21,218	613
Cash and cash equivalents, beginning of period	50,544	29,326	28,713
Cash and cash equivalents, end of period	$43,060	$50,544	$29,326
Supplemental disclosure of cash flow information:			
Cash paid for interest	$30,620	$29,668	$24,976
Cash paid for income taxes	$1,995	$4,479	$1,126
Assumption of mortgage debt related to hotel acquisition	$—	$125,000	$—

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

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CHESAPEAKE LODGING TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Chesapeake Lodging Trust (the "Trust") is a self-advised real estate investment trust ("REIT") that was organized in the state of Maryland in June 2009. The Trust is focused on investments primarily in upper-upscale hotels in major business and convention markets and, on a selective basis, premium select-service hotels in urban settings or unique locations in the United States of America ("U.S."). The Trust completed its initial public offering ("IPO") in January 2010. The Trust owned no hotels nor had any operations prior to its IPO. As of December 31, 2016, the Trust owned 22 hotels with an aggregate of 6,694 rooms in nine states and the District of Columbia.

Substantially all of the Trust's assets are held by, and all of its operations are conducted through, Chesapeake Lodging, L.P., a Delaware limited partnership, which is wholly owned by the Trust (the "Operating Partnership"). For the Trust to qualify as a REIT, it cannot operate hotels. Therefore, the Operating Partnership leases its hotels to taxable REIT subsidiaries (each, a "TRS"), which are wholly owned subsidiaries of the Operating Partnership and are treated as TRSs for federal income tax purposes. The TRSs then engage hotel management companies to operate the hotels pursuant to management agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation—The consolidated financial statements presented herein include all of the accounts of Chesapeake Lodging Trust and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on results of operations or retained earnings.

Cash and Cash Equivalents—The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash—Restricted cash includes reserves held in escrow for normal replacements of furniture, fixtures and equipment ("FF&E"), property improvement plans (each, a "PIP"), real estate taxes, and insurance pursuant to certain requirements in the Trust's hotel management, franchise, and loan agreements.

Investments in Hotels—The Trust allocates the purchase prices of hotels acquired based on the fair value of the property, FF&E, and identifiable intangible assets acquired and the fair value of the liabilities assumed. In making estimates of fair value for purposes of allocating the purchase price, the Trust utilizes a number of sources of information that are obtained in connection with the acquisition of a hotel, including valuations performed by independent third parties and cost segregation studies. The Trust also considers information obtained about each hotel as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets acquired and liabilities assumed. Hotel acquisition costs, such as transfer taxes, title insurance, environmental and property condition reviews, and legal and accounting fees, are expensed in the period incurred.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for buildings and building improvements and three to ten years for FF&E. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Replacements and improvements at the hotels are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the Trust's accounts and any resulting gain or loss is recognized in the consolidated statements of operations.

Intangible assets and liabilities are recorded on non-market contracts, including air rights, lease, management, and franchise agreements, assumed as part of the acquisition of certain hotels. Above-market and below-market contract values are based on the present value of the difference between contractual amounts to be paid pursuant to the contracts assumed and the Trust's estimate of the fair market contract rates for corresponding contracts measured over a period equal to the remaining non-cancelable term of the contracts assumed. No value is allocated to market contracts. Intangible assets and liabilities are amortized using the straight-line method over the remaining non-cancelable term of the related contracts.

The Trust reviews its hotels for impairment whenever events or changes in circumstances indicate that the carrying values of the hotels may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse changes in the demand for lodging at the hotels due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel's estimated fair market value is recorded and an impairment loss is recognized. No impairment losses have been recognized related to any hotels for the years ended December 31, 2016, 2015 and 2014.

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The Trust classifies a hotel as held for sale in the period in which it has made the decision to dispose of the hotel, a binding agreement to purchase the hotel has been signed under which the buyer has committed a significant amount of nonrefundable cash, and no significant financing contingencies exist which could cause the transaction not to be completed in a timely manner. If these criteria are met, depreciation and amortization of the hotel will cease and an impairment loss will be recognized if the fair value of the hotel, less the costs to sell, is lower than the carrying amount of the hotel. If the sale represents a strategic shift that has (or will have) a major effect on the Trust's operations and financial results, the Trust will classify the loss, together with the related operating results, as discontinued operations in the consolidated statements of operations and will classify the related assets and liabilities as held for sale in the consolidated balance sheets. As of December 31, 2016 and 2015, the Trust had no assets held for sale or liabilities related to assets held for sale.

Revenue Recognition—Revenues from operations of the hotels are recognized when goods and services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as parking, marina, theater, telephone, and gift shop sales.

Prepaid Expenses and Other Assets—Prepaid expenses and other assets consist of prepaid real estate taxes, prepaid insurance, deposits on hotel acquisitions and loan applications, deferred franchise costs, inventories, deferred tax assets, and other assets.

Deferred Financing Costs—Deferred financing costs are recorded at cost and consist of loan fees and other costs incurred in issuing debt. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the consolidated statements of operations. Unamortized deferred financing costs are included as a direct deduction from long-term debt in the consolidated balance sheets.

Derivative Instruments—From time to time, the Trust is a party to interest rate swaps, which are considered derivative instruments, in order to manage its interest rate exposure. The Trust's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows. The Trust records derivative instruments at fair value as either assets or liabilities and designates them as cash flow hedging instruments at inception. The Trust evaluates the hedge effectiveness of the designated cash flow hedging instruments on a quarterly basis and records the effective portion of the change in the fair value of the cash flow hedging instruments as other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to cash flow hedging instruments are reclassified to interest expense as interest payments are made on the variable-rate debt being hedged. The Trust does not enter into derivative instruments for trading or speculative purposes and monitors the financial stability and credit standing of its counterparties.

Fair Value Measurements—The Trust accounts for certain assets and liabilities at fair value. In evaluating the fair value of both financial and non-financial assets and liabilities, U.S. generally accepted accounting principles ("GAAP") outlines a valuation framework and creates a fair value hierarchy that distinguishes between market assumptions based on market data (observable inputs) and the reporting entity's own assumptions about market data (unobservable inputs). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is defined as a market in which transactions occur with sufficient frequency and volume to provide pricing on an ongoing basis.

Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves), and inputs that are derived principally from or corroborated by observable market data correlation or other means.

Level 3 – Unobservable inputs reflect the reporting entity's own assumptions about the pricing of an asset or liability when observable inputs are not available or when there is minimal, if any, market activity for an identical or similar asset or liability at the measurement date.

Income Taxes—The Trust has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code. As a REIT, the Trust generally will not be subject to federal income tax on that portion of its net income that does not relate to any of the Trust's TRSs, and that is currently distributed to its shareholders. Our TRSs, which lease the Trust's hotels from the subsidiaries of the Operating Partnership owning them, are subject to federal and state income taxes.

The Trust accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-Based Compensation—From time to time, the Trust grants restricted share awards to employees and trustees. To date, the Trust has granted two types of restricted share awards: (1) awards that vest solely on continued employment or service (time-based awards) and (2) awards that vest based on the Trust achieving specified levels of relative total shareholder return and continued employment (performance-based awards). The Trust measures share-based compensation expense for the restricted share awards based on the fair value of the awards on the date of grant. The fair value of time-based awards is determined based on the closing price of the Trust's common shares on the measurement date, which is generally the date of grant. The fair value of performance-based awards is determined using a Monte Carlo simulation performed by an independent third party. For time-based awards, share-based compensation expense is recognized on a straight-line basis over the life of the entire award. For performance-based awards, share-based compensation expense is recognized over the requisite service period for each award. No share-based compensation expense is recognized for awards for which employees or trustees do not render the requisite service.

Earnings Per Share—Basic earnings per share is computed by dividing net income available to common shareholders, adjusted for dividends declared on and undistributed earnings allocated to unvested time-based awards, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders, adjusted for dividends declared on and undistributed earnings allocated to unvested time-based awards, by the weighted-average number of common shares outstanding, plus potentially dilutive securities, such as unvested performance-based awards, during the period. The Trust's unvested time-based awards are entitled to receive non-forfeitable dividends, if declared. Therefore, unvested time-based awards qualify as participating securities, requiring the allocation of dividends and undistributed earnings under the two-class method to calculate basic earnings per share. The percentage of undistributed earnings allocated to the unvested time-based awards is based on the proportion of the weighted-average unvested time-based awards outstanding during the period to the total of the weighted-average common shares and unvested time-based awards outstanding during the period. No adjustment is made for shares that are anti-dilutive during the period.

Segment Information—The Trust has determined that its business is conducted in one reportable segment, hotel ownership.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (the "FASB") issued updated accounting guidance for recognition of revenue from contracts with customers. The comprehensive new accounting guidance will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB delayed the effective date of the new accounting guidance to be for interim and annual periods beginning on or after December 15, 2017. The new accounting guidance is to be applied on a retrospective or a modified retrospective basis. The Trust will adopt the new accounting guidance on January 1, 2018, but has not yet determined the method of adoption. The Trust does not believe that the adoption of this guidance will have a material impact on the consolidated financial statements.

In April 2015, the FASB issued updated accounting guidance for the presentation of debt issuance costs in the consolidated balance sheets. Under the new accounting guidance, debt issuance costs are shown as a direct deduction from the related debt liability rather than as an asset in the consolidated balance sheet. The amortization of the costs will continue to be included in interest expense in the consolidated statement of operations. The Trust adopted the new accounting guidance on January 1, 2016 and applied it on a retrospective basis. As a result, $6.5 million of unamortized deferred financing costs, which was previously presented as an asset as of December 31, 2015, is now presented within long-term debt. This reclassification had no effect on previously reported results of operations or retained earnings. The Trust does not believe that the adoption of this guidance has a material impact on the consolidated financial statements.

In November 2016, the FASB issued updated accounting guidance which requires the consolidated statements of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash. Therefore, restricted cash should be included within cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2017 and is to be applied on a retrospective basis. The Trust will adopt the new accounting guidance on January 1, 2018. The adoption of this guidance will change the presentation of restricted cash in the consolidated statements of cash flows, however, the Trust does not believe that the adoption of this guidance will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued updated accounting guidance to clarify the definition of a business. The new accounting guidance adds further guidance that assists entities in evaluating whether a transaction should be accounted for as an acquisition of (or disposal of) an asset or a business. Under the new accounting guidance, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The new accounting guidance is effective for interim and

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annual periods beginning after December 15, 2017 (early adoption is permitted) and is to be applied prospectively. The Trust will adopt the new accounting guidance on January 1, 2018. The Trust believes that the adoption of this guidance may have a material impact on its results of operations to the extent it completes any future acquisitions.

3. Acquisitions

The Trust has acquired the following hotels since January 1, 2014 (in thousands, except rooms data):

Hotel	Location	Rooms	Net Assets Acquired	Acquisition Date
2014 Acquisition:				
JW Marriott San Francisco Union Square[1]	San Francisco, CA	337	154,143	October 1, 2014
		337	154,143	
2015 Acquisitions:				
Royal Palm South Beach Miami, a Tribute Portfolio Resort[2]	Miami Beach, FL	393	153,662	March 9, 2015
Ace Hotel and Theater Downtown Los Angeles	Los Angeles, CA	182	101,687	April 30, 2015
		575	255,349	

(1) As part of the acquisition, the Trust assumed a ground lease, which has a term ending January 2083. See Note 14, "Commitments and Contingencies," for additional information relating to the lease agreement.

(2) As part of the acquisition, the Trust assumed a $125.0 million term loan with a carrying value that approximated its fair value at the date of acquisition. See Note 7, "Long-Term Debt," for additional information related to the term loan.

The allocation of the purchase prices to the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

	Acquisitions	
	2015	2014
Land and land improvements	$64,462	$—
Buildings and leasehold improvements	294,498	139,150
Furniture, fixtures and equipment	20,518	8,000
Cash	100	1,851
Restricted cash	—	6,937
Accounts receivable, net	1,823	1,513
Prepaid expenses and other assets	3,162	132
Accounts payable and accrued expenses	(4,089)	(3,440)
Other liabilities	(125)	—
Mortgage loan	(125,000)	—
Net assets acquired	$255,349	$154,143

4. Dispositions

On September 30, 2014, the Trust sold the 153-room Courtyard Anaheim at Disneyland Resort located in Anaheim, California for $32.5 million, including sold working capital. Net proceeds from the sale were $31.8 million, which resulted in the recognition of a gain on sale of $7.0 million. This sale did not represent a strategic shift that had (or will have) a major effect on the Trust's operations and financial results, and therefore, did not qualify to be reported as discontinued operations.

On April 14, 2016, the Trust sold the separate, five-room villa building and related land parcel at the Hyatt Centric Santa Barbara for $2.1 million, including sold working capital. Net proceeds from the sale were $2.0 million, which resulted in the recognition of a gain on sale of $0.6 million. This sale did not represent a strategic shift that had (or will have) a major effect on the Trust's operations and financial results, and therefore, did not qualify to be reported as discontinued operations.

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5. Property and Equipment

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

	December 31,	
	2016	2015
Land and land improvements	$319,039	$319,702
Buildings and leasehold improvements	1,634,432	1,628,124
Furniture, fixtures and equipment	197,815	191,092
Construction-in-progress	21,399	3,276
	2,172,685	2,142,194
Less: accumulated depreciation and amortization	(289,816)	(215,250)
Property and equipment, net	$1,882,869	$1,926,944

6. Intangible Assets and Liability

Intangible assets and liability as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31,	
	2016	2015
Intangible assets:		
Air rights contract(1)	$36,105	$36,105
Favorable ground leases(2)	3,568	3,568
	39,673	39,673
Less: accumulated amortization	(3,838)	(3,259)
Intangible assets, net	$35,835	$36,414
Intangible liability:		
Unfavorable contract liability(2)	$14,236	$14,236
Less: accumulated amortization	(2,061)	(1,668)
Intangible liability, net (included within other liabilities)	$12,175	$12,568

(1) In conjunction with the acquisition of the Hyatt Regency Boston on March 18, 2010, the Trust acquired an air rights contract which expires in September 2079 and that requires no payments through maturity. The Trust recorded the fair value of the air rights contract of $36.1 million as an intangible asset and is amortizing the value over the term of the contract.

(2) In conjunction with the acquisition of the Denver Marriott City Center on October 3, 2011, the Trust assumed three lease agreements for land parcels underlying a portion of the hotel with initial terms ending July 2068, February 2072 and April 2072. The Trust concluded that the terms of two of the three ground leases were below market terms and recorded an aggregate of $4.8 million of favorable ground lease assets at the time. On July 29, 2014, the Trust terminated one of the two ground leases with below market terms in connection with acquiring the associated land parcel and recognized a $1.2 million loss on impairment of intangible asset, which is included within indirect hotel operating expenses in the consolidated statement of operations for the year ended December 31, 2014. The Trust is amortizing the remaining favorable ground lease asset over the life of the respective lease and including within indirect hotel operating expenses in the consolidated statements of operations. Also in conjunction with the acquisition of the Denver Marriott City Center, the Trust assumed a management contract with a non-cancelable term ending December 2047. The Trust concluded that the management agreement terms were above market terms and recorded a $14.2 million unfavorable contract liability, which the Trust is amortizing over the remaining non-cancelable term and including within indirect hotel operating expenses in the consolidated statements of operations.

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7. Long-Term Debt

Long-term debt as of December 31, 2016 and 2015 consisted of the following (in thousands):

	Origination	Original Principal Amount	Maturity	Interest Rate	Principal Amortization Period	December 31, 2016	December 31, 2015
Revolving credit facility[1]	July 2010	n/a	March 2019	Floating	n/a	$60,000	$110,000
Term loan:							
Royal Palm South Beach Miami, a Tribute Portfolio Resort[2]	March 2015	$125,000	March 2017	Floating	n/a	125,000	125,000
Other mortgage loans:							
Hyatt Regency Boston[3]	June 2011	$95,000	July 2016	5.01%	30	—	88,601
Courtyard Washington Capitol Hill/Navy Yard[4]	June 2011	$37,497	November 2016	5.90%	30	—	34,491
Boston Marriott Newton	May 2013	$60,000	June 2020	3.63%	25	54,614	56,221
Le Meridien San Francisco	July 2013	$92,500	August 2020	3.50%	25	84,476	86,979
Denver Marriott City Center[5]	July 2012	$70,000	August 2022	4.90%	30	65,048	66,285
Hilton Checkers Los Angeles	February 2013	$32,000	March 2023	4.11%	30	29,884	30,480
W Chicago – City Center	July 2013	$93,000	August 2023	4.25%	25	85,720	88,008
Hyatt Herald Square New York/Hyatt Place New York Midtown South[6]	July 2014	$90,000	July 2024	4.30%	30	89,414	90,000
Hyatt Regency Boston	June 2016	$150,000	July 2026	4.25%	30	148,749	—
						742,905	776,065
Unamortized premium[4]						—	176
Unamortized deferred financing costs						(5,595)	(6,493)
Long-term debt						$737,310	$769,748

(1) The Trust may exercise an option to extend the maturity by one year, subject to certain customary conditions. As of December 31, 2016, the interest rate in effect was 2.32%. See below for additional information related to the revolving credit facility.

(2) On March 9, 2015, in connection with the acquisition of the Royal Palm South Beach Miami, a Tribute Portfolio Resort, the Trust assumed an existing loan agreement with an outstanding principal balance of $125.0 million. The term loan was amended and restated at the time of assumption and provides for a new two-year term and, subject to certain customary conditions, an option to extend the maturity by one year. The term loan bears interest equal to one-month LIBOR plus 2.40%. Contemporaneous with the assumption of the term loan, the Trust entered into an interest rate swap to effectively fix the interest rate on the term loan for the new two-year term at 3.34% per annum. Under the terms of this interest rate swap, the Trust pays fixed interest of 0.94% per annum on a notional amount of $125.0 million and receives floating rate interest equal to one-month LIBOR. The effective date of this interest rate swap is March 9, 2015 and it matures on March 9, 2017.

(3) On April 6, 2016, the Trust prepaid without penalty this mortgage loan.

(4) On June 30, 2011, in connection with the acquisition of the Courtyard Washington Capitol Hill/Navy Yard, the Trust assumed an existing loan agreement with an outstanding principal balance of $37.5 million. Based on interest rates on similar types of debt instruments at the time of assumption, the Trust recorded the loan at its estimated fair

value of $38.6 million, which included a premium on mortgage loan of $1.1 million. Amortization of premium on mortgage loan is computed using a method that approximates the effective interest method over the term of the loan agreement and is included in interest expense in the consolidated statements of operations. On August 1, 2016, the Trust prepaid without penalty this mortgage loan.

(5) The loan has a term of 30 years, but is callable by the lender after 10 years, and the Trust expects the lender to call the loan at that time. The indicated maturity is based on the date the loan is callable by the lender.

(6) The loan requires interest-only payments for the first two years and principal and interest payments thereafter.

Revolving credit facility

On July 30, 2010, the Trust entered into a credit agreement to obtain a $115.0 million, two-year secured revolving credit facility with a syndicate of banks. Borrowings under the revolving credit facility bore interest equal to LIBOR plus 3.75%, subject to a LIBOR floor of 2.00%. On January 21, 2011, the Trust amended the credit agreement to increase the maximum size of the revolving credit facility from $115.0 million to $150.0 million. On October 14, 2011, the Trust further amended the credit agreement by (1) increasing the maximum size of the revolving credit facility from $150.0 million to $200.0 million, (2)

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lowering the interest rate to LIBOR plus 2.75% - 3.75% (the spread over LIBOR based on the Trust's consolidated leverage ratio) and (3) extending the maturity date to October 14, 2014. On October 25, 2012, the Trust further amended the credit agreement by (1) increasing the maximum size of the revolving credit facility from $200.0 million to $250.0 million, (2) lowering the interest rate to LIBOR plus 1.75% - 2.75% (the spread over LIBOR continues to be based on the Trust's consolidated leverage ratio), and (3) extending the maturity date to April 25, 2016.

On March 4, 2015, the Trust further amended the credit agreement to (1) convert its revolving credit facility from a secured to an unsecured revolving credit facility, (2) increase the maximum borrowing availability under the revolving credit facility from $250.0 million to $300.0 million, (3) lower the interest rate to LIBOR plus 1.55% - 2.30% (the spread over LIBOR continues to be based on the Trust's consolidated leverage ratio), and (4) extend the maturity date to March 2019. The amended credit agreement provides for the possibility of further future increases, up to a maximum of $450.0 million, in accordance with the terms of the amended credit agreement. The amended credit agreement also provides for an extension of the maturity date by one year, subject to satisfaction of certain customary conditions.

The amount that the Trust can borrow under the revolving credit facility is based on the value of the Trust's hotels included in the borrowing base, as defined in the amended credit agreement. As of December 31, 2016, the borrowing base included 11 of the Trust's hotels providing borrowing availability of $300.0 million under the revolving credit facility, of which $240.0 million remained available. The amended credit agreement contains more favorable financial covenants, including the leverage ratio and minimum tangible net worth requirement, as compared to those in effect prior to the amendment, and has additional financial covenants typically found in similar unsecured revolving credit facilities, including a consolidated secured debt ratio, an unsecured leverage ratio and an unsecured debt service coverage ratio.

Other

Certain of the Trust's mortgage loan agreements contain standard financial covenants relating to coverage ratios and standard provisions that require loan servicers to maintain escrow accounts for certain items, including real estate taxes, insurance premiums, and normal replacements of FF&E.

As of December 31, 2016, the Trust was in compliance with all financial covenants under its borrowing arrangements.

As of December 31, 2016, the Trust’s weighted-average interest rate on its long-term debt was 3.87%. Future scheduled principal payments of debt obligations (assuming no exercise of extension options) as of December 31, 2016 are as follows (in thousands):

Year	Amounts
2017	$137,438
2018	13,178
2019	73,732
2020	135,316
2021	10,233
Thereafter	373,008
	$742,905

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8. Earnings Per Share

The following is a reconciliation of the amounts used in calculating basic and diluted earnings per share (in thousands, except share and per share data):

	Year Ended December 31,		
	2016	2015	2014
Numerator:			
Net income available to common shareholders	$67,018	$ 57,820	$ 51,266
Less: Dividends declared on unvested time-based awards	(561)	(560)	(499)
Less: Undistributed earnings allocated to unvested time-based awards	—	—	—
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards	$66,457	$ 57,260	$ 50,767
Denominator:			
Weighted-average number of common shares outstanding–basic	58,717,647	57,474,256	50,488,007
Effect of dilutive unvested performance-based awards	—	452,143	402,854
Weighted-average number of common shares outstanding–diluted	58,717,647	57,926,399	50,890,861
Net income available per common share:			
Basic	$1.13	$ 1.00	$ 1.01
Diluted	$1.13	$ 0.99	$ 1.00

For the years ended December 31, 2016 and 2015, 460,269 unvested performance-based awards and 193,426 unvested performance-based awards, respectively, were excluded from diluted weighted-average common shares outstanding as the awards had not achieved the specific levels of relative total shareholder return required for vesting at each period end. For the year ended December 31, 2014, no unvested performance-based awards were excluded from diluted weighted-average common shares outstanding.

9. Shareholders' Equity

Common Shares—The Trust is authorized to issue up to 400,000,000 common shares, $.01 par value per share. Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders of the Trust's common shares are entitled to receive distributions when authorized by the Trust's board of trustees out of assets legally available for the payment of distributions.

On September 6, 2013, the Trust entered into sales agreements with two sales agents, pursuant to which the Trust may issue and sell up to $100.0 million in the aggregate of its common shares through a continuous at-the-market offering or other methods (the "ATM program"). The Trust did not sell any common shares under the ATM program during the years ended December 31, 2016, 2015 and 2014. As of December 31, 2016, $76.0 million of common shares remained available for issuance under the ATM program.

On September 9, 2014, the Trust completed an underwritten public offering of 4,830,000 common shares at a price of $29.88 per share, including 630,000 shares sold pursuant to the underwriter's exercise of its option to purchase additional shares. After deducting underwriting fees and offering costs, the Trust generated net proceeds of $143.9 million.

On March 27, 2015, the Trust completed an underwritten public offering of 4,600,000 common shares at a price of $33.47 per share, including 600,000 shares sold pursuant to the underwriters' exercise of their option to purchase additional shares. After deducting underwriting fees and offering costs, the Trust generated net proceeds of $153.7 million.

On September 29, 2015, the Trust's board of trustees authorized a share repurchase program pursuant to which the Trust may acquire up to $100.0 million of its common shares. The repurchase program authorizes the Trust to repurchase its common shares from time to time through open market purchases, negotiated transactions or other means, in accordance with applicable securities laws and other restrictions. The repurchase program expires in September 2018, but may be suspended or discontinued at any time, and does not obligate the Trust to acquire any particular amount of its shares. As of December 31, 2016, $100.0 million remained available for the repurchase of common shares.

For the years ended December 31, 2016, 2015 and 2014, the Trust issued 3,467, 2,926 and 2,662 unrestricted common shares, respectively, and 448,146, 292,270 and 491,564 restricted common shares, respectively, to its trustees and employees.

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For the years ended December 31, 2016, 2015 and 2014, the Trust repurchased 117,129, 47,804 and 79,417 common shares, respectively, from employees to satisfy the minimum statutory tax withholding requirements related to the vesting of their previously granted restricted common shares. As of December 31, 2016, the Trust had 59,671,964 common shares outstanding.

For the years ended December 31, 2016, 2015 and 2014, the Trust's board of trustees declared dividends per common share as follows:

	Year Ended December 31,		
	2016	2015	2014
First Quarter	$0.40	$0.35	$0.30
Second Quarter	0.40	0.35	0.30
Third Quarter	0.40	0.40	0.30
Fourth Quarter	0.40	0.40	0.30
	$1.60	$1.50	$1.20

Preferred Shares—The Trust is authorized to issue up to 100,000,000 preferred shares, $.01 par value per share. The Trust’s board of trustees is required to set for each class or series of preferred shares the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption. As of December 31, 2016, the Trust had 5,000,000 shares of its 7.75% Series A Cumulative Redeemable Preferred Shares outstanding.

Holders of Series A Cumulative Redeemable Preferred Shares are entitled to receive, when and as authorized by the Trust's board of trustees, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.75% per annum of the $25.00 per share liquidation preference, equivalent to $1.9375 per annum per share. Dividends on the Series A Cumulative Redeemable Preferred Shares are cumulative from the date of original issuance and are payable quarterly in arrears on or about the 15th day of each of January, April, July and October. The Series A Cumulative Redeemable Preferred Shares rank senior to the Trust's common shares with respect to the payment of dividends; the Trust will not declare or pay any dividends, or set aside any funds for the payment of dividends, on its common shares unless the Trust also has declared and either paid or set aside for payment the full cumulative dividends on the Series A Cumulative Redeemable Preferred Shares.

For the years ended December 31, 2016, 2015 and 2014, the Trust's board of trustees declared dividends per preferred share as follows:

	Year Ended December 31,		
	2016	2015	2014
First Quarter	$0.484375	$0.484375	$0.484375
Second Quarter	0.484375	0.484375	0.484375
Third Quarter	0.484375	0.484375	0.484375
Fourth Quarter	0.484375	0.484375	0.484375
	$1.937500	$1.937500	$1.937500

The Trust cannot redeem the Series A Cumulative Redeemable Preferred Shares prior to July 17, 2017, except as described below and in certain limited circumstances related to the ownership limitation necessary to preserve the Trust's qualification as a REIT. On and after July 17, 2017, the Trust, at its option, can redeem the Series A Cumulative Redeemable Preferred Shares, in whole or from time to time in part, at a redemption price of $25.00 per share, plus any accrued and unpaid dividends. The holders of Series A Cumulative Redeemable Preferred Shares have no voting rights except in certain limited circumstances.

Upon the occurrence of a change of control, as defined in the articles supplementary designating the Series A Cumulative Redeemable Preferred Shares, as a result of which the Trust's common shares and the common securities of the acquiring or surviving entity are not listed or quoted on the New York Stock Exchange, the NYSE MKT or the NASDAQ Stock Market, or any successor exchanges, the Trust may, at its option, redeem the Series A Cumulative Redeemable Preferred Shares in whole or in part within 120 days following the change of control by paying $25.00 per share, plus any accrued and unpaid dividends through the date of redemption. If the Trust does not exercise its right to redeem the Series A Cumulative Redeemable Preferred Shares upon a change of control, the holders of the Series A Cumulative Redeemable Preferred Shares have the right to convert some or all of their shares into a number of the Trust's common shares based on a defined formula subject to a share cap. The share cap on each Series A Cumulative Redeemable Preferred Share is 2.9189 common shares.

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10. Equity Plan

In January 2010, the Trust established the Chesapeake Lodging Trust Equity Plan (the “Plan”), which provides for the issuance of equity-based awards, including restricted shares, unrestricted shares, share options, share appreciation rights, and other awards based on the Trust’s common shares. Employees and trustees of the Trust and other persons that provide services to the Trust are eligible to participate in the Plan. The compensation committee of the board of trustees administers the Plan and determines the number of awards to be granted, the vesting period, and the exercise price, if any.

Shares that are issued under the Plan to any person pursuant to an award are counted against the aggregate number of shares available for issuance under the Plan as one share for every one share granted. If any shares covered by an award are not purchased or are forfeited, if an award is settled in cash, or if an award otherwise terminates without delivery of any shares, then the number of common shares counted against the aggregate number of shares available under the Plan with respect to the award will, to the extent of any such forfeiture or termination, again be available for making awards under the Plan. As of December 31, 2016, subject to increases that may result in the case of any future forfeiture or termination of currently outstanding awards, 1,139,390 common shares were reserved and available for future issuances under the Plan.

The Trust will make appropriate adjustments to outstanding awards and the number of shares available for issuance under the Plan, including the individual limitations on awards, to reflect share dividends, share splits, spin-offs and other similar events. While the compensation committee can terminate or amend the Plan at any time, no amendment can adversely impair the rights of grantees with respect to outstanding awards. In addition, an amendment will be contingent on approval of the Trust’s common shareholders to the extent required by law or if the amendment would materially increase the benefits accruing to participants under the Plan, materially increase the aggregate number of shares that can be issued under the Plan, or materially modify the requirements as to eligibility for participation in the Plan. Unless terminated earlier, the Plan will terminate in January 2020, but will continue to govern unexpired awards.

For the year ended December 31, 2013, the Trust granted 537,400 restricted common shares to certain employees and trustees, of which 192,500 shares were time-based awards and 344,900 shares were performance-based awards (the "2013 Performance-Based Awards"). The time-based awards are generally eligible to vest at the rate of one-fourth of the number of restricted shares granted commencing on the first anniversary of their issuance. The 2013 Performance-Based Awards were eligible to vest at the rate of one-fourth of the number of restricted shares granted commencing on December 31, 2013 and each year thereafter. The actual number of shares under the 2013 Performance-Based Awards that vested in a particular year was based on the Trust’s annual total shareholder return (“TSR”), as defined in the restricted share agreements, relative to the annual total return generated by the SNL US Hotel REIT Index prepared by SNL Financial LC (the “Index”) . Any previously unvested shares under the 2013 Performance-Based Awards were also eligible to vest at December 31, 2016 based on the Trust’s cumulative TSR, measured over the four-year performance period ended December 31, 2016, relative to the total return generated by the Index. Dividends on the 2013 Performance-Based Awards were not paid unless the related shares vested. The fair value of the 2013 Performance-Based Awards was $14.84 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 31.15%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 0.55%. At December 31, 2016, 84,444 shares vested and 130,886 shares were forfeited under the 2013 Performance-Based Awards.

For the year ended December 31, 2014, the Trust granted 491,564 restricted common shares to certain employees and trustees, of which 158,941 shares were time-based awards and 332,623 shares were performance-based awards (the “2014 Performance-Based Awards”). The time-based awards are generally eligible to vest at the rate of one-third of the number of restricted shares granted commencing on the first anniversary of their issuance. The 2014 Performance-Based Awards were eligible to vest at December 31, 2016. The actual number of shares under the 2014 Performance-Based Awards that vested was based on the Trust’s TSR, measured over the three-year performance period ended December 31, 2016, relative to the total return generated by the Index. Dividends on the 2014 Performance-Based Awards were not paid unless the related shares vested. The fair value of the 2014 Performance-Based Awards was $8.98 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 29.34%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 0.72%. At December 31, 2016, 141,467 shares vested and 191,156 shares were forfeited under the 2014 Performance-Based Awards.

For the year ended December 31, 2015, the Trust granted 292,270 restricted common shares to certain employees and trustees, of which 117,918 shares were time-based awards and 174,352 shares were performance-based awards (the "2015 Performance-Based Awards"). The time-based awards are generally eligible to vest at the rate of one-third of the number of restricted shares granted commencing on the first anniversary of their issuance. The 2015 Performance-Based Awards are eligible to vest at December 31, 2017. Dividends on the 2015 Performance-Based Awards accrue, but are not paid unless the related shares vest. The fair value of the 2015 Performance-Based Awards was $17.13 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 19.90%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 0.85%.

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For the year ended December 31, 2016, the Trust granted 448,146 restricted common shares to certain employees and trustees, of which 162,229 shares were time-based awards and 285,917 shares were performance-based awards (the "2016 Performance-Based Awards"). The time-based awards are generally eligible to vest at the rate of one-third of the number of restricted shares granted commencing on the first anniversary of their issuance. The 2016 Performance-Based Awards are eligible to vest at December 31, 2018. Dividends on the 2016 Performance-Based Awards accrue, but are not paid unless the related shares vest. The fair value of the 2016 Performance-Based Awards was $10.54 per share and was determined using a Monte Carlo simulation with the following assumptions: volatility of 21.04%; an expected term equal to the requisite service period for the awards; and a risk-free interest rate of 1.38%. The actual number of shares under the 2015 Performance-Based Awards and the 2016 Performance-Based Awards that vest will be based on the Trust's TSR, measured over a three-year performance period ending December 31, 2017 and December 31, 2018, respectively, relative to the total return generated by the Index. The payout schedule for the 2015 Performance-Based Awards and the 2016 Performance-Based Awards is as follows, with linear interpolation for performance between 67% and 100%, and between 100% and 133% of the Index:

Trust TSR as % of Index Total Return	Payout (% of Maximum)
<67%	0%
67%	25%
100%	50%
≥133%	100%

If the Trust's TSR is negative for a performance period, no shares under the 2015 Performance-Based Awards and the 2016 Performance-Based Awards will vest. If the Trust's TSR is positive for a performance period and the total return of the Index is negative, 100% of the shares subject to vesting under the 2015 Performance-Based Awards and the 2016 Performance-Based Awards will vest.

As of December 31, 2016, there was approximately $7.1 million of unrecognized share-based compensation expense related to restricted common shares. The unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of 1.6 years. The following is a summary of the Trust's restricted common share activity for the years ended December 31, 2016, 2015 and 2014:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Restricted common shares as of December 31, 2013	629,855	$ 18.33
Granted	491,564	$ 13.83
Vested	(193,117)	$ 18.68
Forfeited	(750)	$ 23.58
Restricted common shares as of December 31, 2014	927,552	$ 15.87
Granted	292,270	$ 25.36
Vested	(156,618)	$ 22.76
Forfeited	(5,934)	$ 29.80
Restricted common shares as of December 31, 2015	1,057,270	$ 17.40
Granted	448,146	$ 15.58
Vested	(407,390)	$ 17.66
Forfeited	(322,042)	$ 11.39
Restricted common shares as of December 31, 2016	775,984	$ 18.71

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11. Fair Value Measurements and Derivative Instrument

The following table sets forth the Trust's financial assets and liabilities measured at fair value by level within the fair value hierarchy (in thousands). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at December 31, 2016			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Interest rate swap (included within other liabilities)	$39	$ —	$ 39	$ —
	$39	$ —	$ 39	$ —

Derivative instruments are classified within Level 2 of the fair value hierarchy as they are valued using third-party pricing models which contain inputs that are derived from observable market data. Where possible, the values produced by the pricing models are verified to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility, and correlations of such inputs.

The Trust's financial instruments in addition to those disclosed in the table above include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and long-term debt. The carrying values reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued expenses approximate fair value. The Trust estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles. These inputs are classified as Level 3 within the fair value hierarchy. As of December 31, 2016, the carrying value reported in the consolidated balance sheet for the Trust's long-term debt approximated its fair value.

12. Income Taxes

The components of income tax expense for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 1,472	$ 3,366	$ 685
State	274	580	141
	1,746	3,946	826
Deferred:			
Federal	220	(1,158)	(243)
State	33	(193)	(48)
	253	(1,351)	(291)
Income tax expense	$ 1,999	$ 2,595	$ 535

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

	Year Ended December 31,		
	2016	2015	2014
Statutory federal income tax expense	$26,760	$23,833	$20,906
Effect of non-taxable REIT income	(24,902)	(21,441)	(20,764)
State income tax expense, net of federal taxes	206	252	60
Other	(65)	(49)	333
Income tax expense	$1,999	$2,595	$535

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The tax effect of each type of temporary difference and carryforward that gives rise to the deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	December 31,	
	2016	2015
Deferred tax asset:		
Deferred income–key money	$2,299	$2,425
Net operating loss carryforwards	282	331
Employee-related compensation	270	285
Other	—	18
	2,851	3,059
Deferred tax liability:		
Other	75	30
	75	30
Net deferred tax asset	$2,776	$3,029

As of December 31, 2016, the Trust had a net deferred tax asset of $2.8 million, of which $0.3 million related to net operating loss carryforwards. These net operating loss carryforwards will begin to expire in 2031 if not utilized by then. The Trust believes that it is more likely than not that its TRSs will generate sufficient taxable income to realize in full this deferred tax asset. Accordingly, no valuation allowance has been recorded as of December 31, 2016.
As of December 31, 2016, the tax years that remain subject to examination by major tax jurisdictions generally include 2013 through 2016.

13. Quarterly Operating Results (unaudited)

	Quarter Ended - 2016			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Total revenue	$140,611	$169,431	$ 164,529	$ 145,128
Total operating expenses	124,285	130,153	130,298	125,010
Operating income	16,326	39,278	34,231	20,118
Net income	10,070	28,542	25,947	12,147
Net income available to common shareholders, excluding amounts attributable to unvested time-based awards[1]	7,504	25,959	23,379	9,599
Net income available per common share—basic and diluted[2]	0.13	0.44	0.40	0.16

	Quarter Ended - 2015			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Total revenue	$109,290	$162,145	$ 165,009	$ 146,180
Total operating expenses	103,907	125,592	129,241	121,925
Operating income	5,383	36,553	35,768	24,255
Net income	1,552	24,045	27,180	14,731
Net income (loss) available to common shareholders, excluding amounts attributable to unvested time-based awards[1]	(1,007)	21,480	24,597	12,175
Net income (loss) available per common share[2]:				
Basic	(0.02)	0.37	0.42	0.21
Diluted	(0.02)	0.36	0.42	0.21

(1) The sum of amounts for the four quarters may differ from the annual amount due to the required method of computing the two-class method in the respective periods.

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(2) The sum of per share amounts for the four quarters may differ from the annual per share amount due to the required method of computing weighted-average number of common shares outstanding in the respective periods.

14. Commitments and Contingencies

Management Agreements—The Trust’s hotels operate pursuant to management agreements with various third-party management companies. Each management company receives a base management fee generally between 2% and 4% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Trust has received a priority return on its investment in the hotel.

Franchise Agreements—As of December 31, 2016, 12 of the Trust’s hotels operated pursuant to franchise agreements with hotel brand companies and 10 hotels operated pursuant to management agreements with hotel brand companies that allowed them to operate under their respective brands. Under the 12 franchise agreements, the Trust generally pays a royalty fee ranging from 3% to 6% of room revenues and up to 3% of food and beverage revenues, plus additional fees for marketing, central reservation systems, and other franchisor costs that amount to between 1% and 5% of room revenues.

Ground Lease Agreements—The Trust leases the land underlying the Hyatt Regency Mission Bay Spa and Marina pursuant to a lease agreement, which has an initial term ending January 2056. Rent due under the lease agreement is the greater of base rent or percentage rent. Base rent is currently $2.3 million per year. Base rent resets every three years over the remaining term of the lease equal to 75% of the average of the actual rent paid over the two years preceding the base rent reset year. The next base rent reset year is 2019. Annual percentage rent is calculated based on various percentages of the hotel's various sources of revenue, including room, food and beverage, and marina rentals, earned during the period.

The Trust also leases the land underlying the JW Marriott San Francisco Union Square pursuant to a lease agreement, which has a term ending January 2083. Rent due under the lease agreement is the greater of base rent or percentage rent. Base rent is currently $1.7 million per year. Base rent resets every five years over the remaining term of the lease based on the level of inflation, as defined in the agreement, over the preceding five years, but in no event resulting in an increase of more than 125% of the base rent in effect immediately prior to the reset year (nor subject to any decrease). The next base rent reset year is 2019. In January 2034, base rent will reset to 10% of the fair market value of the underlying land as determined by a valuation performed by an independent third party, if such reset results in an increase over the base rent in effect immediately prior to the reset year. Annual percentage rent is calculated based on various percentages of the hotel's various sources of revenue, including room and food and beverage, earned during the period.

FF&E Reserves—Pursuant to its management, franchise and loan agreements, the Trust is required to establish a FF&E reserve for each hotel to cover the cost of replacing FF&E. Contributions to the FF&E reserve are based on a percentage of gross revenues at each hotel. The Trust is generally required to contribute between 3% and 5% of gross revenues over the term of the agreements.

Litigation—The Trust is not involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Trust.

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CHESAPEAKE LODGING TRUST
SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2016
(in thousands)

Description	Encumbrances	Initial Cost		Costs Capitalized Subsequent to Acquisition	Gross Amount at End of Year			Accumulated Depreciation	Year of Acquisition	Depr Life
		Land	Buildings and Improvements		Land	Buildings and Improvements	Total			
Hyatt Regency Boston Boston, Massachusetts	$148,749	$—	$71,462	$11,181	$75	$82,568	$82,643	$14,636	2010	40 y
Hilton Checkers Los Angeles Los Angeles, California	29,884	9,010	32,710	2,277	9,030	34,967	43,997	5,925	2010	40 y
Boston Marriott Newton Newton, Massachusetts	54,614	11,800	56,450	2,421	12,000	58,671	70,671	9,390	2010	40 y
Le Meridien San Francisco San Francisco, California	84,476	28,737	100,734	5,191	28,768	105,894	134,662	16,389	2010	40 y
Homewood Suites Seattle Convention Center Seattle, Washington	—	6,266	44,004	1,164	6,267	45,167	51,434	6,453	2011	40 y
W Chicago – City Center Chicago, Illinois	85,720	29,800	93,464	7,209	29,800	100,673	130,473	14,977	2011	40 y
Hotel Indigo San Diego Gaslamp Quarter San Diego, California	—	8,300	43,000	869	8,308	43,861	52,169	6,098	2011	40 y
Courtyard Washington Capitol Hill/Navy Yard Washington, DC	—	9,661	57,930	1,537	9,661	59,467	69,128	8,292	2011	40 y

Hotel Adagio San Francisco, Autograph Collection San Francisco, California	—	7,900	33,973	5,944	7,987	39,830	47,817	6,295	2011	40 y
Denver Marriott City Center Denver, Colorado	65,048	3,500	118,209	5,401	4,076	123,034	127,110	16,373	2011	40 y
Hyatt Herald Square New York New York, New York	(1)	14,350	36,325	6,214	14,365	42,524	56,889	5,470	2011	40 y
W Chicago – Lakeshore Chicago, Illinois	—	40,000	80,800	27,127	40,140	107,787	147,927	13,630	2012	40 y
Hyatt Regency Mission Bay Spa and Marina San Diego, California	—	—	57,633	2,359	—	59,992	59,992	6,517	2012	40 y
The Hotel Minneapolis, Autograph Collection Minneapolis, Minnesota	—	2,350	39,988	457	2,350	40,445	42,795	4,233	2012	40 y
Hyatt Place New York Midtown South New York, New York	(1)	18,470	55,002	271	18,482	55,261	73,743	5,306	2013	40 y
W New Orleans – French Quarter New Orleans, Louisiana	—	4,092	19,468	151	4,097	19,614	23,711	1,844	2013	40 y
Le Meridien New Orleans New Orleans, Louisiana	—	4,700	54,875	17,007	4,703	71,879	76,582	7,303	2013	40 y
Hyatt Centric Fisherman's Wharf	—	24,200	74,400	4,864	24,200	79,264	103,464	7,227	2013	40 y

San Francisco, California										
Hyatt Centric Santa Barbara Santa Barbara, California	—	30,225	23,989	2,850	30,246	26,818	57,064	2,413	2013	40 y
JW Marriott San Francisco Union Square San Francisco, California	—	—	139,150	448	—	139,598	139,598	7,861	2014	40 y
Royal Palm South Beach Miami, a Tribute Portfolio Resort Miami Beach, Florida	125,000	40,100	222,230	2,250	40,114	224,466	264,580	10,222	2015	40 y
Ace Hotel and Theater Downtown Los Angeles Los Angeles, California	—	24,362	72,268	67	24,370	72,327	96,697	3,014	2015	40 y
Totals	$682,905	$317,823	$1,528,064	$107,259	$319,039	$1,634,107	$1,953,146	$179,868		

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(1) This hotel secures a mortgage loan issued in July 2014, which had an outstanding principal balance of $89,414 as of December 31, 2016.

Notes:

(a) The change in total cost of real estate assets for the years ended December 31, 2016, 2015 and 2014 is as follows:

Balance as of December 31, 2013	$1,398,806
Acquisition	139,150
Capital expenditures and transfers from construction-in-progress	53,710
Disposition	(24,424)
Balance as of December 31, 2014	1,567,242
Acquisitions	358,960
Capital expenditures and transfers from construction-in-progress	21,300
Balance as of December 31, 2015	1,947,502
Capital expenditures and transfers from construction-in-progress	7,034
Disposition	(1,390)
Balance as of December 31, 2016	$1,953,146

(b) The change in accumulated depreciation and amortization of real estate assets for the years ended December 31, 2016, 2015 and 2014 is as follows:

Balance as of December 31, 2013	$61,457
Depreciation and amortization	32,012
Disposition	(1,728)
Balance as of December 31, 2014	91,741
Depreciation and amortization	42,970
Balance as of December 31, 2015	134,711
Depreciation and amortization	45,199
Disposition	(42)
Balance as of December 31, 2016	$179,868