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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2019

**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 001-37389

**APPLE HOSPITALITY REIT, INC.**

(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of incorporation or organization)

26-1379210  
(I.R.S. Employer Identification No.)

**814 East Main Street**  
**Richmond, Virginia**  
(Address of principal executive offices)

**23219**  
(Zip Code)

**(804) 344-8121**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

| <u>Title of each class</u>  | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|-----------------------------|-----------------------|--------------------------------------------------|
| Common Shares, no par value | APLE                  | New York Stock Exchange                          |

Number of registrant's common shares outstanding as of May 1, 2019: 223,865,950

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**Apple Hospitality REIT, Inc.**  
**Form 10-Q**  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Apple Hospitality REIT, Inc.  
Consolidated Balance Sheets  
(in thousands, except share data)

|                                                                                                                                    | March 31,<br>2019<br>(unaudited) | December 31,<br>2018 |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                                                                                                      |                                  |                      |
| Investment in real estate, net of accumulated depreciation and amortization of \$923,877 and \$909,893, respectively               | \$ 4,891,503                     | \$ 4,816,410         |
| Restricted cash-furniture, fixtures and other escrows                                                                              | 32,269                           | 33,632               |
| Due from third party managers, net                                                                                                 | 51,358                           | 29,091               |
| Other assets, net                                                                                                                  | 49,257                           | 49,539               |
| <b>Total Assets</b>                                                                                                                | <b>\$ 5,024,387</b>              | <b>\$ 4,928,672</b>  |
| <b>Liabilities</b>                                                                                                                 |                                  |                      |
| Debt, net                                                                                                                          | \$ 1,405,616                     | \$ 1,412,242         |
| Finance lease liabilities                                                                                                          | 162,818                          | -                    |
| Accounts payable and other liabilities                                                                                             | 88,926                           | 107,420              |
| <b>Total Liabilities</b>                                                                                                           | <b>1,657,360</b>                 | <b>1,519,662</b>     |
| <b>Shareholders' Equity</b>                                                                                                        |                                  |                      |
| Preferred stock, authorized 30,000,000 shares; none issued and outstanding                                                         | -                                | -                    |
| Common stock, no par value, authorized 800,000,000 shares; issued and outstanding 223,868,180 and 223,997,348 shares, respectively | 4,493,362                        | 4,495,073            |
| Accumulated other comprehensive income                                                                                             | 3,962                            | 10,006               |
| Distributions greater than net income                                                                                              | (1,130,297)                      | (1,096,069)          |
| <b>Total Shareholders' Equity</b>                                                                                                  | <b>3,367,027</b>                 | <b>3,409,010</b>     |
| <b>Total Liabilities and Shareholders' Equity</b>                                                                                  | <b>\$ 5,024,387</b>              | <b>\$ 4,928,672</b>  |

See notes to consolidated financial statements.

**Apple Hospitality REIT, Inc.**  
**Consolidated Statements of Operations and Comprehensive Income**  
**(Unaudited)**  
**(in thousands, except per share data)**

|                                                                | <b>Three Months Ended</b> |                  |
|----------------------------------------------------------------|---------------------------|------------------|
|                                                                | <b>March 31,</b>          |                  |
|                                                                | <b>2019</b>               | <b>2018</b>      |
| <b>Revenues:</b>                                               |                           |                  |
| Room                                                           | \$ 279,470                | \$ 274,836       |
| Food and beverage                                              | 15,015                    | 15,710           |
| Other                                                          | 9,302                     | 7,843            |
| Total revenue                                                  | 303,787                   | 298,389          |
| <b>Expenses:</b>                                               |                           |                  |
| Hotel operating expense:                                       |                           |                  |
| Operating                                                      | 75,580                    | 75,954           |
| Hotel administrative                                           | 25,630                    | 25,102           |
| Sales and marketing                                            | 27,694                    | 25,332           |
| Utilities                                                      | 9,939                     | 10,283           |
| Repair and maintenance                                         | 12,866                    | 12,453           |
| Franchise fees                                                 | 13,111                    | 12,733           |
| Management fees                                                | 10,629                    | 10,472           |
| Total hotel operating expense                                  | 175,449                   | 172,329          |
| Property taxes, insurance and other                            | 19,208                    | 17,229           |
| Operating ground lease                                         | 405                       | 2,850            |
| General and administrative                                     | 8,137                     | 6,877            |
| Depreciation and amortization                                  | 47,950                    | 44,840           |
| Total expense                                                  | 251,149                   | 244,125          |
| Gain on sale of real estate                                    | 1,213                     | -                |
| <b>Operating income</b>                                        | 53,851                    | 54,264           |
| Interest and other expense, net                                | (15,494)                  | (11,919)         |
| <b>Income before income taxes</b>                              | 38,357                    | 42,345           |
| Income tax expense                                             | (206)                     | (163)            |
| <b>Net income</b>                                              | <u>\$ 38,151</u>          | <u>\$ 42,182</u> |
| <b>Other comprehensive income (loss):</b>                      |                           |                  |
| Interest rate derivatives                                      | (6,044)                   | 6,292            |
| <b>Comprehensive income</b>                                    | <u>\$ 32,107</u>          | <u>\$ 48,474</u> |
| <b>Basic and diluted net income per common share</b>           | <u>\$ 0.17</u>            | <u>\$ 0.18</u>   |
| Weighted average common shares outstanding - basic and diluted | 223,932                   | 230,515          |

See notes to consolidated financial statements.

**Apple Hospitality REIT, Inc.**  
**Consolidated Statements of Shareholders' Equity**  
**Three Months Ended March 31, 2019 and 2018**  
**(Unaudited)**  
**(in thousands, except per share data)**

|                                                                    | Common Stock        |                     | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Distributions<br>Greater Than<br>Net Income | Total               |
|--------------------------------------------------------------------|---------------------|---------------------|--------------------------------------------------------|---------------------------------------------|---------------------|
|                                                                    | Number of<br>Shares | Amount              |                                                        |                                             |                     |
| <b>Balance at December 31, 2018</b>                                | 223,997             | \$ 4,495,073        | \$ 10,006                                              | \$ (1,096,069)                              | \$ 3,409,010        |
| Cumulative effect of the adoption of ASU 2016-02 related to leases | -                   | -                   | -                                                      | (5,201)                                     | (5,201)             |
| Share based compensation, net                                      | 145                 | 2,385               | -                                                      | -                                           | 2,385               |
| Common shares repurchased                                          | (274)               | (4,096)             | -                                                      | -                                           | (4,096)             |
| Interest rate derivatives                                          | -                   | -                   | (6,044)                                                | -                                           | (6,044)             |
| Net income                                                         | -                   | -                   | -                                                      | 38,151                                      | 38,151              |
| Distributions declared to shareholders (\$0.30 per share)          | -                   | -                   | -                                                      | (67,178)                                    | (67,178)            |
| <b>Balance at March 31, 2019</b>                                   | <u>223,868</u>      | <u>\$ 4,493,362</u> | <u>\$ 3,962</u>                                        | <u>\$ (1,130,297)</u>                       | <u>\$ 3,367,027</u> |
| <b>Balance at December 31, 2017</b>                                | 229,962             | \$ 4,588,188        | \$ 9,778                                               | \$ (1,026,881)                              | \$ 3,571,085        |
| Share based compensation, net                                      | 390                 | 5,684               | -                                                      | -                                           | 5,684               |
| Issuance of common shares, net                                     | 243                 | 4,679               | -                                                      | -                                           | 4,679               |
| Common shares repurchased                                          | (255)               | (4,304)             | -                                                      | -                                           | (4,304)             |
| Interest rate derivatives                                          | -                   | -                   | 6,292                                                  | -                                           | 6,292               |
| Net income                                                         | -                   | -                   | -                                                      | 42,182                                      | 42,182              |
| Distributions declared to shareholders (\$0.30 per share)          | -                   | -                   | -                                                      | (69,144)                                    | (69,144)            |
| <b>Balance at March 31, 2018</b>                                   | <u>230,340</u>      | <u>\$ 4,594,247</u> | <u>\$ 16,070</u>                                       | <u>\$ (1,053,843)</u>                       | <u>\$ 3,556,474</u> |

See notes to consolidated financial statements.

**Apple Hospitality REIT, Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)  
(in thousands)

|                                                                               | Three Months Ended<br>March 31, |           |
|-------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                               | 2019                            | 2018      |
| <b>Cash flows from operating activities:</b>                                  |                                 |           |
| Net income                                                                    | \$ 38,151                       | \$ 42,182 |
| Adjustments to reconcile net income to cash provided by operating activities: |                                 |           |
| Depreciation and amortization                                                 | 47,950                          | 44,840    |
| Gain on sale of real estate                                                   | (1,213)                         | -         |
| Other non-cash expenses, net                                                  | 1,186                           | 1,992     |
| Changes in operating assets and liabilities:                                  |                                 |           |
| Increase in due from third party managers, net                                | (22,251)                        | (25,920)  |
| Increase in other assets, net                                                 | (2,345)                         | (2,485)   |
| Decrease in accounts payable and other liabilities                            | (5,235)                         | (7,746)   |
| Net cash provided by operating activities                                     | 56,243                          | 52,863    |
| <b>Cash flows from investing activities:</b>                                  |                                 |           |
| Acquisition of hotel properties, net                                          | (52,576)                        | (61,614)  |
| Deposits and other disbursements for potential acquisitions                   | (360)                           | (204)     |
| Capital improvements                                                          | (21,223)                        | (24,672)  |
| Net proceeds from sale of real estate                                         | 95,143                          | -         |
| Net cash provided by (used in) investing activities                           | 20,984                          | (86,490)  |
| <b>Cash flows from financing activities:</b>                                  |                                 |           |
| Net proceeds related to issuance of common shares                             | -                               | 4,731     |
| Repurchases of common shares                                                  | (4,096)                         | (4,304)   |
| Repurchases of common shares to satisfy employee withholding requirements     | (491)                           | (876)     |
| Distributions paid to common shareholders                                     | (67,188)                        | (69,144)  |
| Net payments on existing revolving credit facility                            | (78,400)                        | -         |
| Net proceeds from extinguished revolving credit facility                      | -                               | 63,800    |
| Proceeds from term loans                                                      | 75,000                          | -         |
| Proceeds from mortgage debt                                                   | -                               | 44,000    |
| Payments of mortgage debt                                                     | (3,415)                         | (2,933)   |
| Net cash (used in) provided by financing activities                           | (78,590)                        | 35,274    |
| <b>Net change in cash, cash equivalents and restricted cash</b>               | (1,363)                         | 1,647     |
| <b>Cash, cash equivalents and restricted cash, beginning of period</b>        | 33,632                          | 29,791    |
| <b>Cash, cash equivalents and restricted cash, end of period</b>              | \$ 32,269                       | \$ 31,438 |
| <b>Supplemental cash flow information:</b>                                    |                                 |           |
| Interest paid                                                                 | \$ 15,409                       | \$ 11,760 |
| <b>Supplemental disclosure of noncash investing and financing activities:</b> |                                 |           |
| Accrued distribution to common shareholders                                   | \$ 22,384                       | \$ 23,020 |
| <b>Reconciliation of cash, cash equivalents and restricted cash:</b>          |                                 |           |
| Cash and cash equivalents, beginning of period                                | \$ -                            | \$ -      |
| Restricted cash-furniture, fixtures and other escrows, beginning of period    | 33,632                          | 29,791    |
| Cash, cash equivalents and restricted cash, beginning of period               | \$ 33,632                       | \$ 29,791 |
| Cash and cash equivalents, end of period                                      | \$ -                            | \$ -      |
| Restricted cash-furniture, fixtures and other escrows, end of period          | 32,269                          | 31,438    |
| Cash, cash equivalents and restricted cash, end of period                     | \$ 32,269                       | \$ 31,438 |

See notes to consolidated financial statements.

**Apple Hospitality REIT, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. Organization and Summary of Significant Accounting Policies**

*Organization*

Apple Hospitality REIT, Inc., together with its wholly-owned subsidiaries (the “Company”), is a Virginia corporation that has elected to be treated as a real estate investment trust (“REIT”) for federal income tax purposes. The Company is a self-advised REIT that invests in income-producing real estate, primarily in the lodging sector, in the United States (“U.S.”). The Company’s fiscal year end is December 31. The Company has no foreign operations or assets and its operating structure includes only one reportable segment. The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Although the Company has interests in potential variable interest entities through its purchase commitments, it is not the primary beneficiary as the Company does not have any elements of power in the decision making process of these entities, and therefore does not consolidate the entities. As of March 31, 2019, the Company owned 234 hotels with an aggregate of 30,046 rooms located in 34 states. The Company’s common shares are listed on the New York Stock Exchange (“NYSE”) under the ticker symbol “APLE.”

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include all of the information required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”). Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the twelve month period ending December 31, 2019.

*Use of Estimates*

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Net Income Per Common Share*

Basic net income per common share is computed based upon the weighted average number of shares outstanding during the period. Diluted net income per common share is calculated after giving effect to all potential common shares that were dilutive and outstanding for the period. Basic and diluted net income per common share were the same for each of the periods presented.

*Reclassifications*

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the current period presentation with no effect on previously reported net income or shareholders’ equity. With the adoption of Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, the Company recorded a cumulative-effect adjustment to distributions greater than net income, a component of shareholders’ equity, as of January 1, 2019. See “Accounting Standards Recently Adopted” below and Note 9 for more information.

*Accounting Standards Recently Adopted*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases (Topic 842)*, which replaces *Leases (Topic 840)*, and along with subsequent amendments, provides the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). Under this standard, lessees are required to recognize most leases on their balance sheets as right-of-use assets and lease liabilities. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Leases with a term of 12 months or less are accounted for similarly to the previous accounting guidance under *Leases (Topic 840)*, for operating leases. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which provides entities another optional transition method, which the Company elected, to apply the standard using the modified retrospective approach at its effective date, versus restating the prior periods presented, and recognizing a cumulative-effect adjustment to the opening balance of retained earnings for the effect of initially applying Topic 842 in the period of adoption. Consequently, an entity’s reporting for periods presented prior to adoption of the new lease requirements in the consolidated financial statements would continue in accordance with *Leases (Topic 840)*, including disclosures.

The Company adopted this standard effective January 1, 2019, electing to recognize and measure its leases prospectively at the beginning of the period of adoption through a cumulative-effect adjustment to shareholders’ equity, without restating the presentation of periods prior to the effective date, which continue to be reported in accordance with the Company’s historical accounting policy. At adoption, the Company recorded a cumulative-effect adjustment totaling approximately \$5.2 million to distributions greater than net income, a component of shareholders’ equity in the Company’s consolidated balance sheet. The Company elected to apply certain practical expedients allowed under the standard including (i) to use hindsight in determining the term as well as assessing the impairment of its existing leases, (ii) to not assess whether existing land easements not previously accounted for as leases are or contain leases, and (iii) to not evaluate short-term leases. The Company has elected not to apply the package of practical expedients under the standard which would have allowed the Company to not reassess at the date of adoption: (i) whether any existing contracts meet the definition of a lease, (ii) the lease classification for any existing leases, and (iii) the accounting for initial direct costs of any existing leases.

At adoption of the new standard, the Company recorded right-of-use assets and lease liabilities for its ground leases and certain other operating leases measured at the estimated present value of the remaining minimum lease payments under the leases. Four of the Company’s ground leases that were previously classified as operating leases under Topic 840 are classified as financing leases under Topic 842. For these finance leases, effective January 1, 2019, the Company recognizes depreciation and amortization expense and interest and other expense, net in the Company’s consolidated statements of operations, instead of operating ground lease expense. While the total expense recognized over the life of a lease is unchanged, the timing of expense recognition for these finance leases results in higher expense recognition during the earlier years of the lease and lower expense during the later years of the lease. In addition to recording operating and financing right-of-use assets and lease liabilities, the Company also reclassified at adoption its intangible assets for below market leases and intangible liabilities for above market leases, as well as its accrued straight-line lease liabilities for its operating leases, to the beginning right-of-use assets. The Company derecognized its accrued straight-line lease liabilities related to its finance leases, which are included in the cumulative-effect adjustment noted above. The Company is also a lessor in certain retail lease agreements related to its real estate, however, there was no material change to the accounting for these leasing arrangements. See Note 9 for more information regarding the Company’s lease assets and liabilities.

**2. Investment in Real Estate**

The Company’s investment in real estate consisted of the following (in thousands):

|                                                | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|------------------------------------------------|---------------------------|------------------------------|
| Land                                           | \$ 730,614                | \$ 737,822                   |
| Building and Improvements                      | 4,461,084                 | 4,503,728                    |
| Furniture, Fixtures and Equipment              | 465,457                   | 471,399                      |
| Finance ground lease assets                    | 144,768                   | -                            |
| Franchise Fees                                 | 13,457                    | 13,354                       |
|                                                | 5,815,380                 | 5,726,303                    |
| Less Accumulated Depreciation and Amortization | (923,877)                 | (909,893)                    |
| Investment in Real Estate, net                 | <u>\$ 4,891,503</u>       | <u>\$ 4,816,410</u>          |



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Effective January 1, 2019, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*, as amended and, as a result, recorded finance ground lease assets for four of its ground leases, which are included in investment in real estate, net. See Note 9 for more information regarding the Company's finance ground lease assets.

As of March 31, 2019, the Company owned 234 hotels with an aggregate of 30,046 rooms located in 34 states.

The Company leases all of its hotels to its wholly-owned taxable REIT subsidiary (or a subsidiary thereof) under master hotel lease agreements.

#### *Hotel Acquisitions*

The Company acquired two hotels during the three months ended March 31, 2019. The following table sets forth the location, brand, manager, date acquired, number of rooms and gross purchase price, excluding transaction costs, for each hotel. All dollar amounts are in thousands.

| <u>City</u> | <u>State</u> | <u>Brand</u> | <u>Manager</u> | <u>Date Acquired</u> | <u>Rooms</u> | <u>Gross Purchase Price</u> |
|-------------|--------------|--------------|----------------|----------------------|--------------|-----------------------------|
| St. Paul    | MN           | Hampton      | Vista Host     | 3/4/2019             | 160          | \$ 31,680                   |
| Orlando     | FL           | Home2 Suites | LBA            | 3/19/2019            | 128          | 20,736                      |
|             |              |              |                |                      | <u>288</u>   | <u>\$ 52,416</u>            |

During the year ended December 31, 2018, the Company acquired five hotels including two hotels in the first three months of 2018. The following table sets forth the location, brand, manager, date acquired, number of rooms and gross purchase price, excluding transaction costs, for each hotel. All dollar amounts are in thousands.

| <u>City</u>       | <u>State</u> | <u>Brand</u> | <u>Manager</u> | <u>Date Acquired</u> | <u>Rooms</u> | <u>Gross Purchase Price</u> |
|-------------------|--------------|--------------|----------------|----------------------|--------------|-----------------------------|
| Atlanta/Downtown  | GA           | Hampton      | McKibbon       | 2/5/2018             | 119          | \$ 24,000                   |
| Memphis           | TN           | Hampton      | Crestline      | 2/5/2018             | 144          | 39,000                      |
| Phoenix           | AZ           | Hampton      | North Central  | 5/2/2018             | 210          | 44,300                      |
| Atlanta/Perimeter |              |              |                |                      |              |                             |
| Dunwoody          | GA           | Hampton      | LBA            | 6/28/2018            | 132          | 29,500                      |
| Jacksonville      | FL           | Hyatt Place  | LBA            | 12/7/2018            | 127          | 15,400                      |
|                   |              |              |                |                      | <u>732</u>   | <u>\$ 152,200</u>           |

The Company used borrowings under its revolving credit facility to purchase each of these hotels. The acquisitions of these hotel properties were accounted for as an acquisition of a group of assets, with costs incurred to effect the acquisition, which were not significant, capitalized as part of the cost of the assets acquired. For the two hotels acquired during the three months ended March 31, 2019, the amount of revenue and operating income included in the Company's consolidated statement of operations from the date of acquisition through March 31, 2019 was approximately \$0.7 million and \$0.1 million, respectively. For the two hotels acquired during the three months ended March 31, 2018, the amount of revenue and operating income included in the Company's consolidated statement of operations from the date of acquisition through March 31, 2018 was approximately \$2.4 million and \$0.8 million, respectively.

*Hotel Purchase Contract Commitments*

As of March 31, 2019, the Company had outstanding contracts for the potential purchase of four hotels for a total expected purchase price of approximately \$110.0 million, which are under development and are planned to be completed and opened for business over the next 15 to 21 months from March 31, 2019, at which time closings on these hotels are expected to occur. Although the Company is working towards acquiring these hotels, there are many conditions to closing that have not yet been satisfied and there can be no assurance that closings on these hotels will occur under the outstanding purchase contracts. The following table summarizes the location, brand, date of purchase contract, expected number of rooms, refundable (if the seller does not meet its obligations under the contract) contract deposits paid, and gross purchase price for each of the contracts outstanding at March 31, 2019. All dollar amounts are in thousands.

| <u>Location (1)</u>    | <u>Brands</u>               | <u>Date of Purchase Contract</u> | <u>Rooms</u> | <u>Refundable Deposits</u> | <u>Gross Purchase Price</u> |
|------------------------|-----------------------------|----------------------------------|--------------|----------------------------|-----------------------------|
| Cape Canaveral, FL (2) | Hampton and Home2 Suites    | 4/11/2018                        | 224          | \$ 3                       | \$ 46,704                   |
| Tempe, AZ (3)          | Hyatt House and Hyatt Place | 6/13/2018                        | 254          | 720                        | 63,341                      |
|                        |                             |                                  | <u>478</u>   | <u>\$ 723</u>              | <u>\$ 110,045</u>           |

- (1) These hotels are currently under development. The table shows the expected number of rooms upon hotel completion and the expected franchise brands. Assuming all conditions to closing are met, the purchases of these hotels are expected to occur over the next 15 to 21 months from March 31, 2019. If the seller meets all of the conditions to closing, the Company is obligated to specifically perform under the contract. As the properties are under development, at this time, the seller has not met all of the conditions to closing.
- (2) These hotels are part of an adjoining combined 224-room, dual-branded complex that will be located on the same site.
- (3) These hotels are part of an adjoining combined 254-room, dual-branded complex that will be located on the same site.

The Company intends to use borrowings under its credit facilities to purchase the hotels under contract if a closing occurs.

**3. Dispositions**

In February 2019, the Company terminated its purchase and sale agreement with an unrelated party for the sale of 16 of its hotels and entered into two purchase and sale agreements with the same unrelated party for the sale of a total of nine hotels for a total combined gross sales price of \$95.0 million. On March 28, 2019, the Company completed the sale of the hotels, resulting in a gain of approximately \$1.8 million, which is included in the Company's consolidated statement of operations for the three months ended March 31, 2019. The nine hotels had a total carrying value of approximately \$93.0 million at the time of the sale. The following table lists the nine hotels sold:

| <u>City</u>   | <u>State</u> | <u>Brand</u>      | <u>Rooms</u> |
|---------------|--------------|-------------------|--------------|
| Sarasota      | FL           | Homewood Suites   | 100          |
| Tampa         | FL           | TownePlace Suites | 94           |
| Baton Rouge   | LA           | SpringHill Suites | 119          |
| Holly Springs | NC           | Hampton           | 124          |
| Duncanville   | TX           | Hilton Garden Inn | 142          |
| Texarkana     | TX           | Courtyard         | 90           |
| Texarkana     | TX           | TownePlace Suites | 85           |
| Bristol       | VA           | Courtyard         | 175          |
| Harrisonburg  | VA           | Courtyard         | 125          |
| Total         |              |                   | <u>1,054</u> |

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During the year ended December 31, 2018, the Company sold three hotels in two transactions with unrelated parties for a total combined gross sales price of approximately \$15.8 million, resulting in a combined gain on sale of approximately \$0.2 million, which is included in the Company's consolidated statement of operations for the year ended December 31, 2018. Of the three hotels sold, two of the hotels (the Columbus, Georgia 89-room SpringHill Suites and 86-room TownePlace Suites) were sold on July 13, 2018 for a combined gross sales price of \$10.0 million, resulting in no gain or loss on the sale, and one hotel (the 72-room Springdale, Arkansas Residence Inn) was sold on November 29, 2018 for a gross sales price of approximately \$5.8 million, resulting in a gain of approximately \$0.2 million. During the second quarter of 2018, the Company recognized impairment losses of approximately \$3.1 million related to these three hotels, which is included in the Company's consolidated statement of operations for the year ended December 31, 2018, and consisted of approximately \$0.5 million to adjust the bases of the two Columbus hotels that sold in July 2018 to their estimated fair values, which were based on the contracted sales prices, net of estimated selling costs, and approximately \$2.6 million to adjust the basis of the Springdale, Arkansas Residence Inn that sold in November 2018 to its estimated fair value, which was based on the offers received at that time, net of estimated selling costs.

The Company's consolidated statements of operations include operating income, excluding gain on sale of real estate, of approximately \$1.2 million and \$1.5 million for the three months ended March 31, 2019 and 2018, respectively, relating to the results of operations of the twelve hotels sold as noted above for the period of ownership. The sale of these properties does not represent a strategic shift that has, or will have, a major effect on the Company's operations and financial results, and therefore the operating results for the period of ownership of these properties are included in income from continuing operations for the three months ended March 31, 2019 and 2018. The net proceeds from the sales were used to pay down borrowings on the Company's revolving credit facility.

#### 4. Debt

##### Summary

As of March 31, 2019 and December 31, 2018, the Company's debt consisted of the following (in thousands):

|                           | March 31, 2019      | December 31, 2018   |
|---------------------------|---------------------|---------------------|
| Revolving credit facility | \$ 190,400          | \$ 268,800          |
| Term loans, net           | 728,702             | 653,382             |
| Mortgage debt, net        | 486,514             | 490,060             |
| Debt, net                 | <u>\$ 1,405,616</u> | <u>\$ 1,412,242</u> |

The aggregate amounts of principal payable under the Company's total debt obligations as of March 31, 2019 (including the revolving credit facility, term loans and mortgage debt), for the five years subsequent to March 31, 2019 and thereafter are as follows (in thousands):

|                                                                         |                     |
|-------------------------------------------------------------------------|---------------------|
| 2019 (April - December)                                                 | \$ 30,391           |
| 2020                                                                    | 28,349              |
| 2021                                                                    | 47,586              |
| 2022                                                                    | 299,652             |
| 2023                                                                    | 295,615             |
| Thereafter                                                              | 709,165             |
|                                                                         | <u>1,410,758</u>    |
| Unamortized fair value adjustment of assumed debt                       | 3,203               |
| Unamortized debt issuance costs related to term loans and mortgage debt | <u>(8,345)</u>      |
| Total                                                                   | <u>\$ 1,405,616</u> |

The Company uses interest rate swaps to manage its interest rate risks on a portion of its variable-rate debt. Throughout the terms of these interest rate swaps, the Company pays a fixed rate of interest and receives a floating rate of interest equal to the London Inter-Bank Offered Rate for a one-month term (“one-month LIBOR”). The swaps are designed to effectively fix the interest payments on variable-rate debt instruments. See Note 5 for more information on the interest rate swap agreements. The Company’s total fixed-rate and variable-rate debt, after giving effect to its interest rate swaps, is set forth below. All dollar amounts are in thousands.

|                                        | <u>March 31, 2019</u> | <u>Percentage</u> | <u>December 31, 2018</u> | <u>Percentage</u> |
|----------------------------------------|-----------------------|-------------------|--------------------------|-------------------|
| Fixed-rate debt <sup>(1)</sup>         | \$ 1,092,858          | 77%               | \$ 1,046,273             | 74%               |
| Variable-rate debt <sup>(2)</sup>      | 317,900               | 23%               | 371,300                  | 26%               |
| Total                                  | <u>\$ 1,410,758</u>   |                   | <u>\$ 1,417,573</u>      |                   |
| Weighted-average interest rate of debt | 3.80%                 |                   | 3.74%                    |                   |

- (1) Fixed-rate debt includes the portion of variable-rate debt where the interest payments have been effectively fixed by interest rate swaps as of the respective balance sheet date. See Note 5 for more information on the interest rate swap agreements.
- (2) The Company has two forward interest rate swaps that begin in 2020 that will effectively fix the interest rate on an additional \$75 million of the Company’s variable-rate debt. See Note 5 for more information on the interest rate swap agreements.

#### *Revolving Credit Facility and Term Loans*

##### \$850 Million Credit Facility

On July 27, 2018, the Company entered into an amendment and restatement of its then outstanding unsecured \$965 million credit facility, which was repaid at closing, reducing the borrowing capacity to \$850 million, reducing the annual interest rate and extending the maturity dates (the “\$850 million credit facility”). The \$850 million credit facility is comprised of (i) a \$425 million revolving credit facility with an initial maturity date of July 27, 2022 and (ii) a \$425 million term loan facility consisting of two term loans: a \$200 million term loan with a maturity date of July 27, 2023, and a \$225 million term loan with a maturity date of January 31, 2024, both funded at closing (the “\$425 million term loan facility”). At closing, the Company repaid the \$425 million outstanding under the term loans of the \$965 million credit facility with the proceeds from the \$425 million term loan facility under the \$850 million credit facility and borrowed approximately \$196 million under the \$425 million revolving credit facility to repay the outstanding balance of the extinguished revolving credit facility and to pay closing costs. Subject to certain conditions including covenant compliance and additional fees, the \$425 million revolving credit facility maturity date may be extended up to one year. The Company may make voluntary prepayments in whole or in part, at any time. Interest payments on the \$850 million credit facility are due monthly and the interest rate, subject to certain exceptions, is equal to an annual rate of the one-month LIBOR plus a margin ranging from 1.35% to 2.25%, depending upon the Company’s leverage ratio, as calculated under the terms of the credit agreement. The Company is also required to pay quarterly an unused facility fee at an annual rate of 0.20% or 0.25% on the unused portion of the \$425 million revolving credit facility, based on the amount of borrowings outstanding during the quarter.

##### \$225 Million Term Loan Facility

On August 2, 2018, the Company entered into an amendment and restatement of its then outstanding \$150 million term loan facility, which was repaid at closing, increasing the borrowing capacity to \$225 million, reducing the annual interest rate and extending the maturity dates (the “\$225 million term loan facility”). The \$225 million term loan facility is comprised of (i) a \$50 million term loan with a maturity date of August 2, 2023, which was funded at closing, and (ii) a \$175 million term loan with a maturity date of August 2, 2025, of which \$100 million was drawn at closing and the remaining \$75 million was drawn on January 29, 2019. At closing, the Company repaid the \$150 million outstanding under the \$150 million term loan facility with the proceeds from the \$225 million term loan facility. The credit agreement contains requirements and covenants similar to the Company’s \$850 million credit facility. The Company may make voluntary prepayments in whole or in part, at any time, subject to certain conditions. Interest payments on the \$225 million term loan facility are due monthly and the interest rate, subject to certain exceptions, is equal to an annual rate of the one-month LIBOR plus a margin ranging from 1.35% to 2.50%, depending upon the Company’s leverage ratio, as calculated under the terms of the credit agreement.

\$85 Million Term Loan

On July 25, 2017, the Company entered into an unsecured \$85 million term loan with a syndicate of commercial banks, with a maturity date of July 25, 2024 (the “\$85 million term loan” and, together with the \$850 million credit facility and the \$225 million term loan facility, the “credit facilities”). Although no material terms were changed, the credit agreement was amended and restated in August 2018 as a result of the refinancings noted above. The amended and restated credit agreement contains requirements and covenants similar to the Company’s \$850 million credit facility. The Company may make voluntary prepayments in whole or in part, at any time, subject to certain conditions. Interest payments on the \$85 million term loan are due monthly and the interest rate is equal to an annual rate of the one-month LIBOR plus a margin ranging from 1.80% to 2.60%, depending upon the Company’s leverage ratio, as calculated under the terms of the credit agreement.

As of March 31, 2019 and December 31, 2018, the details of the Company’s credit facilities were as set forth below. All dollar amounts are in thousands.

|                                                              | Interest Rate         | Maturity Date | Outstanding Balance |                   |
|--------------------------------------------------------------|-----------------------|---------------|---------------------|-------------------|
|                                                              |                       |               | March 31, 2019      | December 31, 2018 |
| Revolving credit facility <sup>(1)</sup>                     | LIBOR + 1.40% - 2.25% | 7/27/2022     | \$ 190,400          | \$ 268,800        |
| <b>Term loans</b>                                            |                       |               |                     |                   |
| \$200 million term loan                                      | LIBOR + 1.35% - 2.20% | 7/27/2023     | 200,000             | 200,000           |
| \$225 million term loan                                      | LIBOR + 1.35% - 2.20% | 1/31/2024     | 225,000             | 225,000           |
| \$50 million term loan                                       | LIBOR + 1.35% - 2.20% | 8/2/2023      | 50,000              | 50,000            |
| \$175 million term loan                                      | LIBOR + 1.65% - 2.50% | 8/2/2025      | 175,000             | 100,000           |
| \$85 million term loan                                       | LIBOR + 1.80% - 2.60% | 7/25/2024     | 85,000              | 85,000            |
| Term loans at stated value                                   |                       |               | 735,000             | 660,000           |
| Unamortized debt issuance costs                              |                       |               | (6,298)             | (6,618)           |
| Term loans, net                                              |                       |               | 728,702             | 653,382           |
| Revolving credit facility and term loans, net <sup>(1)</sup> |                       |               | \$ 919,102          | \$ 922,182        |
| Weighted-average interest rate <sup>(2)</sup>                |                       |               | 3.45%               | 3.37%             |

(1) Excludes unamortized debt issuance costs related to the revolving credit facility totaling approximately \$3.3 million and \$3.6 million as of March 31, 2019 and December 31, 2018, respectively, which are included in other assets, net in the Company’s consolidated balance sheets.

(2) Interest rate represents the weighted-average effective annual interest rate at the balance sheet date which includes the effect of interest rate swaps in effect on \$607.5 million and \$557.5 million of the outstanding variable-rate debt as of March 31, 2019 and December 31, 2018, respectively. See Note 5 for more information on the interest rate swap agreements. The one-month LIBOR at March 31, 2019 and December 31, 2018 was 2.49% and 2.50%, respectively.

The credit agreements governing the credit facilities contain mandatory prepayment requirements, customary affirmative covenants, negative covenants and events of default. The credit agreements require that the Company comply with various covenants, which include, among others, a minimum tangible net worth, maximum debt limits, minimum interest and fixed charge coverage ratios and restrictions on certain investments. The Company was in compliance with the applicable covenants at March 31, 2019.

*Mortgage Debt*

As of March 31, 2019, the Company had approximately \$485.4 million in outstanding mortgage debt secured by 31 properties, with maturity dates ranging from June 2020 to January 2038, stated interest rates ranging from 3.55% to 6.25% and effective interest rates ranging from 3.55% to 4.97%. The loans generally provide for monthly payments of principal and interest on an amortized basis and defeasance or prepayment penalties if prepaid. The following table sets forth the hotel properties securing each loan, the interest rate, loan assumption or origination date, maturity date, the principal amount assumed or originated, and the outstanding balance prior to any fair value adjustments or debt issuance costs as of March 31, 2019 and December 31, 2018 for each of the Company’s mortgage debt obligations. All dollar amounts are in thousands.

| Location                                          | Brand             | Interest Rate (1) | Loan Assumption or Origination Date | Maturity Date | Principal Assumed or Originated | Outstanding balance as of March 31, 2019 | Outstanding balance as of December 31, 2018 |
|---------------------------------------------------|-------------------|-------------------|-------------------------------------|---------------|---------------------------------|------------------------------------------|---------------------------------------------|
| San Juan Capistrano, CA                           | Residence Inn     | 4.15%             | 9/1/2016                            | 6/1/2020      | \$ 16,210                       | \$ 15,341                                | \$ 15,431                                   |
| Colorado Springs, CO                              | Hampton           | 6.25%             | 9/1/2016                            | 7/6/2021      | 7,923                           | 7,580                                    | 7,617                                       |
| Franklin, TN                                      | Courtyard         | 6.25%             | 9/1/2016                            | 8/6/2021      | 14,679                          | 14,047                                   | 14,115                                      |
| Franklin, TN                                      | Residence Inn     | 6.25%             | 9/1/2016                            | 8/6/2021      | 14,679                          | 14,047                                   | 14,115                                      |
| Grapevine, TX                                     | Hilton Garden Inn | 4.89%             | 8/29/2012                           | 9/1/2022      | 11,810                          | 10,020                                   | 10,101                                      |
| Collegeville/Philadelphia, PA                     | Courtyard         | 4.89%             | 8/30/2012                           | 9/1/2022      | 12,650                          | 10,732                                   | 10,820                                      |
| Hattiesburg, MS                                   | Courtyard         | 5.00%             | 3/1/2014                            | 9/1/2022      | 5,732                           | 5,018                                    | 5,058                                       |
| Rancho Bernardo/San Diego, CA                     | Courtyard         | 5.00%             | 3/1/2014                            | 9/1/2022      | 15,060                          | 13,183                                   | 13,289                                      |
| Kirkland, WA                                      | Courtyard         | 5.00%             | 3/1/2014                            | 9/1/2022      | 12,145                          | 10,631                                   | 10,717                                      |
| Seattle, WA                                       | Residence Inn     | 4.96%             | 3/1/2014                            | 9/1/2022      | 28,269                          | 24,728                                   | 24,928                                      |
| Anchorage, AK                                     | Embassy Suites    | 4.97%             | 9/13/2012                           | 10/1/2022     | 23,230                          | 19,798                                   | 19,957                                      |
| Somerset, NJ                                      | Courtyard         | 4.73%             | 3/1/2014                            | 10/6/2022     | 8,750                           | 7,629                                    | 7,692                                       |
| Tukwila, WA                                       | Homewood Suites   | 4.73%             | 3/1/2014                            | 10/6/2022     | 9,431                           | 8,223                                    | 8,291                                       |
| Prattville, AL                                    | Courtyard         | 4.12%             | 3/1/2014                            | 2/6/2023      | 6,596                           | 5,705                                    | 5,754                                       |
| Huntsville, AL                                    | Homewood Suites   | 4.12%             | 3/1/2014                            | 2/6/2023      | 8,306                           | 7,184                                    | 7,246                                       |
| San Diego, CA                                     | Residence Inn     | 3.97%             | 3/1/2014                            | 3/6/2023      | 18,600                          | 16,058                                   | 16,198                                      |
| Miami, FL                                         | Homewood Suites   | 4.02%             | 3/1/2014                            | 4/1/2023      | 16,677                          | 14,423                                   | 14,547                                      |
| Syracuse, NY                                      | Courtyard         | 4.75%             | 10/16/2015                          | 8/1/2024 (2)  | 11,199                          | 10,283                                   | 10,357                                      |
| Syracuse, NY                                      | Residence Inn     | 4.75%             | 10/16/2015                          | 8/1/2024 (2)  | 11,199                          | 10,283                                   | 10,357                                      |
| New Orleans, LA                                   | Homewood Suites   | 4.36%             | 7/17/2014                           | 8/11/2024     | 27,000                          | 24,052                                   | 24,232                                      |
| Westford, MA                                      | Residence Inn     | 4.28%             | 3/18/2015                           | 4/11/2025     | 10,000                          | 9,071                                    | 9,137                                       |
| Denver, CO                                        | Hilton Garden Inn | 4.46%             | 9/1/2016                            | 6/11/2025     | 34,118                          | 31,975                                   | 32,198                                      |
| Oceanside, CA                                     | Courtyard         | 4.28%             | 9/1/2016                            | 10/1/2025     | 13,655                          | 13,012                                   | 13,077                                      |
| Omaha, NE                                         | Hilton Garden Inn | 4.28%             | 9/1/2016                            | 10/1/2025     | 22,682                          | 21,613                                   | 21,722                                      |
| Boise, ID                                         | Hampton           | 4.37%             | 5/26/2016                           | 6/11/2026     | 24,000                          | 22,906                                   | 23,015                                      |
| Burbank, CA                                       | Courtyard         | 3.55%             | 11/3/2016                           | 12/1/2026     | 25,564                          | 24,075                                   | 24,247                                      |
| San Diego, CA                                     | Courtyard         | 3.55%             | 11/3/2016                           | 12/1/2026     | 25,473                          | 23,990                                   | 24,161                                      |
| San Diego, CA                                     | Hampton           | 3.55%             | 11/3/2016                           | 12/1/2026     | 18,963                          | 17,859                                   | 17,986                                      |
| Burbank, CA                                       | SpringHill Suites | 3.94%             | 3/9/2018                            | 4/1/2028      | 28,470                          | 27,846                                   | 28,018                                      |
| Santa Ana, CA                                     | Courtyard         | 3.94%             | 3/9/2018                            | 4/1/2028      | 15,530                          | 15,189                                   | 15,283                                      |
| San Jose, CA                                      | Homewood Suites   | 4.22%             | 12/22/2017                          | 1/1/2038      | 30,000                          | 28,857                                   | 29,107                                      |
|                                                   |                   |                   |                                     |               | \$ 528,600                      | 485,358                                  | 488,773                                     |
| Unamortized fair value adjustment of assumed debt |                   |                   |                                     |               |                                 | 3,203                                    | 3,428                                       |
| Unamortized debt issuance costs                   |                   |                   |                                     |               |                                 | (2,047)                                  | (2,141)                                     |
| <b>Total</b>                                      |                   |                   |                                     |               | \$ 486,514                      | \$ 490,060                               |                                             |

- (1) Interest rates are the rates per the loan agreement. For loans assumed, the Company adjusted the interest rates per the loan agreement to market rates and is amortizing the adjustments to interest expense over the life of the loan.
- (2) Outstanding principal balance is callable by lender or prepayable by the Company on August 1, 2019.

## 5. Fair Value of Financial Instruments

Except as described below, the carrying value of the Company's financial instruments approximates fair value due to the short-term nature of these financial instruments.

## Debt

The Company estimates the fair value of its debt by discounting the future cash flows of each instrument at estimated market rates consistent with the maturity of a debt obligation with similar credit terms and credit characteristics, which are Level 3 inputs under the fair value hierarchy. Market rates take into consideration general market conditions and maturity. As of March 31, 2019 and December 31, 2018, both the carrying value and estimated fair value of the Company's debt were approximately \$1.4 billion. Both the carrying value and estimated fair value of the Company's debt (as discussed above) is net of unamortized debt issuance costs related to term loans and mortgage debt for each specific year.

## Derivative Instruments

Currently, the Company uses interest rate swaps to manage its interest rate risks on variable-rate debt. Throughout the terms of these interest rate swaps, the Company pays a fixed rate of interest and receives a floating rate of interest equal to the one-month LIBOR. The swaps are designed to effectively fix the interest payments on variable-rate debt instruments. These swap instruments are recorded at fair value and, if in an asset position, are included in other assets, net, and, if in a liability position, are included in accounts payable and other liabilities in the Company's consolidated balance sheets. The fair values of the Company's interest rate swap agreements are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts, which is considered a Level 2 measurement under the fair value hierarchy. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The following table sets forth information for each of the Company's interest rate swap agreements outstanding as of March 31, 2019 and December 31, 2018. All dollar amounts are in thousands.

| Hedge Type                     | Notional Amount at |  | Origination Date | Maturity Date | Swap Fixed Interest Rate | Fair Value Asset (Liability) |                   |
|--------------------------------|--------------------|--|------------------|---------------|--------------------------|------------------------------|-------------------|
|                                | March 31, 2019     |  |                  |               |                          | March 31, 2019               | December 31, 2018 |
| Cash flow hedge                | \$ 212,500         |  | 5/21/2015        | 5/18/2020     | 1.58%                    | \$ 1,880                     | \$ 2,744          |
| Cash flow hedge                | 110,000            |  | 7/2/2015         | 5/18/2020     | 1.62%                    | 924                          | 1,361             |
| Cash flow hedge                | 50,000             |  | 4/7/2016         | 3/31/2021     | 1.09%                    | 1,141                        | 1,519             |
| Cash flow hedge                | 100,000            |  | 4/7/2016         | 3/31/2023     | 1.33%                    | 3,206                        | 4,477             |
| Cash flow hedge                | 75,000             |  | 5/31/2017        | 6/30/2024     | 1.96%                    | 738                          | 1,905             |
| Cash flow hedge                | 10,000             |  | 8/10/2017        | 6/30/2024     | 2.01%                    | 72                           | 226               |
| Cash flow hedge <sup>(1)</sup> | 50,000             |  | 6/1/2018         | 6/30/2025     | 2.89%                    | (2,105)                      | (1,276)           |
| Cash flow hedge <sup>(2)</sup> | 25,000             |  | 12/6/2018        | 6/30/2025     | 2.75%                    | (778)                        | (379)             |
| Cash flow hedge <sup>(3)</sup> | 50,000             |  | 12/7/2018        | 1/31/2024     | 2.72%                    | (1,116)                      | (571)             |
|                                | <u>\$ 682,500</u>  |  |                  |               |                          | <u>\$ 3,962</u>              | <u>\$ 10,006</u>  |

- (1) In June 2018 the Company entered into a forward interest rate swap agreement with a commercial bank, which beginning January 31, 2019 effectively fixes the interest rate on \$50 million of the Company's variable-rate debt.
- (2) In December 2018 the Company entered into a forward interest rate swap agreement with a commercial bank, which beginning January 31, 2020 will effectively fix the interest rate on \$25 million of the Company's variable-rate debt.
- (3) In December 2018 the Company entered into a forward interest rate swap agreement with a commercial bank, which beginning May 18, 2020 will effectively fix the interest rate on \$50 million of the Company's variable-rate debt.

The Company assesses, both at inception and on an ongoing basis, the effectiveness of its qualifying cash flow hedges. The change in the fair value of the Company's designated cash flow hedges is recorded to accumulated other comprehensive income, a component of shareholders' equity in the Company's consolidated balance sheets. Amounts reported in accumulated other comprehensive income will be reclassified to interest and other expense, net as interest payments are made or received on the Company's variable-rate derivatives. The Company estimates that approximately \$4.4 million of net unrealized gains included in accumulated other comprehensive income at March 31, 2019 will be reclassified as a decrease to interest and other expense, net within the next 12 months.

The following table presents the effect of derivative instruments in cash flow hedging relationships in the Company's consolidated statements of operations and comprehensive income for the three months ended March 31, 2019 and 2018 (in thousands):

|                                                              | Net Unrealized Gain (Loss) Recognized in<br>Other Comprehensive Income |          | Net Unrealized Gain Reclassified from<br>Accumulated Other Comprehensive<br>Income to Interest and Other Expense, net |       |
|--------------------------------------------------------------|------------------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------|-------|
|                                                              | Three Months Ended March 31,                                           |          | Three Months Ended March 31,                                                                                          |       |
|                                                              | 2019                                                                   | 2018     | 2019                                                                                                                  | 2018  |
| Interest rate derivatives in cash flow hedging relationships | \$ (4,770)                                                             | \$ 6,348 | \$ 1,274                                                                                                              | \$ 56 |

## 6. Related Parties

The Company has, and is expected to continue to engage in, transactions with related parties. These transactions cannot be construed to be at arm's length and the results of the Company's operations may be different if these transactions were conducted with non-related parties. There have been no changes to the contracts and relationships discussed in the 2018 Form 10-K. Below is a summary of the significant related party relationships in effect during the three months ended March 31, 2019 and 2018.

Glade M. Knight, Executive Chairman of the Company, owns Apple Realty Group, Inc. ("ARG"), which receives support services from the Company and reimburses the Company for the cost of these services as discussed below. Mr. Knight is also currently a partner and Chief Executive Officer of Energy 11 GP, LLC and Energy Resources 12 GP, LLC, which are the respective general partners of Energy 11, L.P. and Energy Resources 12, L.P., each of which receive support services from ARG.

The Company provides support services, including the use of the Company's employees and corporate office, to ARG and is reimbursed by ARG for the cost of these services. The amounts reimbursed to the Company are based on the actual costs of the services and a good faith estimate of the proportionate amount of time incurred by the Company's employees on behalf of ARG. Total reimbursed costs allocated by the Company to ARG for the three months ended March 31, 2019 and 2018 totaled approximately \$0.3 million and \$0.2 million, respectively, and are recorded as a reduction to general and administrative expenses in the Company's consolidated statements of operations.

As part of the cost sharing arrangement, certain day-to-day transactions may result in amounts due to or from the Company and ARG. To efficiently manage cash disbursements, the Company or ARG may make payments for the other company. Under this cash management process, each company may advance or defer up to \$1 million at any time. Each quarter, any outstanding amounts are settled between the companies. This process allows each company to minimize its cash on hand and reduces the cost for each company. The amounts outstanding at any point in time are not significant to either of the companies. As of March 31, 2019 and December 31, 2018, total amounts due from ARG for reimbursements under the cost sharing structure totaled approximately \$0.3 million and \$0.4 million, respectively, and are included in other assets, net in the Company's consolidated balance sheets.

The Company, through a wholly-owned subsidiary, Apple Air Holding, LLC, owns a Learjet used primarily for acquisition, asset management, renovation and public relations purposes. The aircraft is also leased to affiliates of the Company based on third party rates, which leasing activity was not significant during the reporting periods. The Company also utilizes aircraft, owned through two entities, one of which is owned by the Company's Executive Chairman, and the other, by its President and Chief Executive Officer, for acquisition, asset management, renovation and public relations purposes, and reimburses these entities at third party rates. Total costs incurred for the use of these aircraft during the three months ended March 31, 2019 and 2018 were approximately \$0.05 million and \$0.03 million, respectively, and are included in general and administrative expenses in the Company's consolidated statements of operations.

## 7. Shareholders' Equity

### *Distributions*

The Company's current annual distribution rate, payable monthly, is \$1.20 per common share. For the three months ended March 31, 2019 and 2018, the Company paid distributions of \$0.30 per common share for a total of \$67.2 million and \$69.1 million, respectively. Additionally, in March 2019, the Company declared a monthly distribution of \$0.10 per common share, totaling \$22.4 million, which was recorded as a payable as of March 31, 2019 and paid in April 2019. As of December 31, 2018, a monthly distribution of \$0.10 per common share, totaling \$22.4 million, was recorded as a payable and paid in January 2019. These accrued distributions were included in accounts payable and other liabilities in the Company's consolidated balance sheets.



### *Share Repurchases*

In May 2018, the Company's Board of Directors approved an extension of its existing share repurchase program (the "Share Repurchase Program"), authorizing share repurchases up to an aggregate of \$464 million. The Share Repurchase Program may be suspended or terminated at any time by the Company and will end in July 2019 if not terminated earlier. In March 2018, the Company established a written trading plan as part of the Share Repurchase Program that provides for share repurchases in open market transactions that is intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three months ended March 31, 2019, the Company purchased, under its Share Repurchase Program, approximately 0.3 million of its common shares at a weighted-average market purchase price of approximately \$14.93 per common share for an aggregate purchase price, including commissions, of approximately \$4.1 million. During the three months ended March 31, 2018, the Company purchased, under its Share Repurchase Program, approximately 0.3 million of its common shares at a weighted-average market purchase price of approximately \$16.89 per common share for an aggregate purchase price, including commissions, of approximately \$4.3 million. Repurchases under the Share Repurchase Program have been funded, and the Company intends to fund future repurchases, with availability under its credit facilities. As of March 31, 2019, approximately \$359.9 million remained available for purchase under the Share Repurchase Program.

### **8. Compensation Plans**

The Company annually establishes an incentive plan for its executive management. Under the incentive plan for 2019 (the "2019 Incentive Plan"), participants are eligible to receive a bonus based on the achievement of certain 2019 performance measures, consisting of operational performance metrics (including targeted Modified Funds from Operations per share, Comparable Hotels revenue per available room growth and Adjusted Hotel EBITDA Margin growth) and shareholder return metrics (including shareholder return relative to a peer group and total shareholder return, over one-year, two-year and three-year periods). The operational performance metrics are equally weighted and account for 50% of the total target incentive compensation. The shareholder return metrics are weighted 75% for relative shareholder return metrics and 25% for total shareholder return metrics, and account for 50% of the total target incentive compensation. The range of potential aggregate payouts under the 2019 Incentive Plan is \$0 - \$18 million. Based on performance through March 31, 2019, the Company has accrued approximately \$2.2 million as a liability for potential executive bonus payments under the 2019 Incentive Plan, which is included in accounts payable and other liabilities in the Company's consolidated balance sheet as of March 31, 2019 and in general and administrative expenses in the Company's consolidated statement of operations for the three months ended March 31, 2019. Approximately 25% of awards under the 2019 Incentive Plan, if any, will be paid in cash, and 75% will be issued in stock under the Company's 2014 Omnibus Incentive Plan, approximately two-thirds of which will vest at the end of 2019 and one-third of which will vest in December 2020. Under the incentive plan for 2018 (the "2018 Incentive Plan"), the Company recorded approximately \$1.9 million in general and administrative expenses in the Company's consolidated statement of operations for the three months ended March 31, 2018.

During the three months ended March 31, 2019, the Company accrued for a one-time separation payment of \$0.5 million in connection with the retirement of the Company's Executive Vice President and Chief Legal Officer which, pursuant to the separation and general release agreement executed in March 2019, was paid in April 2019 and is included in accounts payable and other liabilities in the Company's consolidated balance sheet as of March 31, 2019 and in general and administrative expenses in the Company's consolidated statement of operations for the three months ended March 31, 2019.

*Share-Based Compensation Awards*

The following table sets forth information pertaining to the share-based compensation issued under the 2018 Incentive Plan and the incentive plan for 2017 (the “2017 Incentive Plan”).

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <u>2018 Incentive Plan</u> | <u>2017 Incentive Plan</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Period common shares issued                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | First Quarter 2019         | First Quarter 2018         |
| Common shares earned under each incentive plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 156,926                    | 415,866                    |
| Common shares surrendered on issuance date to satisfy tax withholding obligations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 24,999                     | 48,533                     |
| Common shares earned and issued under each incentive plan, net of common shares surrendered on issuance date to satisfy tax withholding obligations                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 131,927                    | 367,333                    |
| Closing stock price on issuance date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | \$ 16.49                   | \$ 16.92                   |
| Total share-based compensation earned, including the surrendered shares (in millions)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | \$ 2.6 (1)                 | \$ 7.0 (2)                 |
| Of the total common shares earned and issued, total common shares unrestricted at time of issuance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 105,345                    | 223,421                    |
| Of the total common shares earned and issued, total common shares restricted at time of issuance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 26,582                     | 143,912                    |
| <b>Restricted common shares vesting date</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>December 13, 2019</b>   | <b>December 14, 2018</b>   |
| Common shares surrendered on vesting date to satisfy tax withholding requirements resulting from vesting of restricted common shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | n/a                        | 41,389                     |
| (1) Of the total 2018 share-based compensation, approximately \$2.4 million was recorded as a liability as of December 31, 2018 and is included in accounts payable and other liabilities in the Company's consolidated balance sheet at December 31, 2018. The remaining \$0.2 million, which is subject to vesting on December 13, 2019, will be recognized as share-based compensation expense proportionately throughout 2019. For the three months ended March 31, 2019, the Company recognized approximately \$0.05 million of share-based compensation expense related to the unvested restricted share awards. |                            |                            |
| (2) Of the total 2017 share-based compensation, approximately \$1.2 million, which vested on December 14, 2018, was recognized as share-based compensation expense proportionately throughout 2018. For the three months ended March 31, 2018, the Company recognized approximately \$0.3 million of share-based compensation expense related to the unvested restricted share awards.                                                                                                                                                                                                                                 |                            |                            |

**9. Leases**

The Company is the lessee on certain ground leases, hotel equipment leases and office space leases. As of March 31, 2019, the Company had 13 hotels subject to ground leases and three parking lot ground leases with remaining terms ranging from approximately four to 87 years. Certain of its ground leases have options to extend beyond the initial lease term by periods ranging from five to 120 years.

The Company adopted ASU No. 2016-02, *Leases (Topic 842)*, as discussed further in Note 1 in the section titled “Accounting Standards Recently Adopted”, effective January 1, 2019, which requires leases with durations greater than twelve months to be recognized on the balance sheet as right-of-use (“ROU”) assets and lease liabilities. Prior year financial statements were not restated under the new standard and, therefore, those amounts are not presented below.

Under the new standard, the Company’s leases are classified as operating or finance leases. For leases with terms greater than 12 months, the Company recognizes a ROU asset and lease liability at the estimated present value of the minimum lease payments over the lease term. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Many of the Company’s leases include rental escalation clauses (including fixed schedule rent increases) and renewal options that are factored into the determination of lease payments when appropriate and the present value of the remaining lease payments is adjusted accordingly. The Company utilizes interest rates implicit in the lease if determinable or, if not, it estimates its incremental borrowing rate from information available at lease commencement, to determine the present value of the lease payments. At transition to the new standard, the Company used information available at that time to determine the incremental borrowing rates on its existing leases at January 1, 2019 based on estimates of rates the Company would pay for senior collateralized loans with terms similar to each lease.

Twelve of the Company’s hotel and parking lot ground leases as well as all of its hotel equipment leases and office space leases are classified as operating leases, for which the Company recorded ROU assets and lease liabilities at adoption of the new standard. The ROU assets are included in other assets, net and the lease liabilities are included in accounts payable and other liabilities in the Company’s consolidated balance sheet. In addition, the Company also reclassified at adoption of the new standard, its intangible assets for below market ground leases and intangible liabilities for above market ground leases related to these leases from other assets, net and accounts payable and other liabilities in the consolidated balance sheet, respectively, as well as accrued straight-line lease liabilities related to these leases from accounts payable and other liabilities in the consolidated balance sheet to the beginning ROU assets. Lease expense is recognized on a straight-line basis over the term of the respective lease and the value of each lease intangible is amortized over the term of the respective lease. Costs related to operating ground leases are included in operating ground lease expense, while costs related to hotel equipment leases are included in hotel operating expense and property taxes, insurance and other expense, and costs related to office space leases are included in general and administrative expense in the Company’s consolidated statements of operations.

Four of the Company’s hotel ground leases are classified as finance leases, for which the Company recorded ROU assets and lease liabilities at adoption of the new standard. The ROU assets are recorded as finance ground lease assets within investment in real estate, net and the lease liabilities are recorded as finance lease liabilities in the Company’s consolidated balance sheet. In addition, the Company also reclassified at adoption of the new standard, its intangible assets for below market ground leases and intangible liabilities for above market ground leases related to these leases from other assets, net and accounts payable and other liabilities in the consolidated balance sheet, respectively, to the beginning ROU assets. At adoption of the new standard, the Company recorded a cumulative-effect adjustment totaling approximately \$5.2 million, which included the derecognition of accrued straight-line lease liabilities related to the finance leases, to distributions greater than net income, a component of shareholders’ equity in the Company’s consolidated balance sheet. The ROU asset and value of each lease intangible is amortized over the term of the respective lease. Costs related to finance ground leases are included in depreciation and amortization expense and interest and other expense, net in the Company’s consolidated statement of operations.

Lease Position as of March 31, 2019

The following table sets forth the lease-related assets and liabilities included in the Company’s consolidated balance sheet as of March 31, 2019. All dollar amounts are in thousands.

|                                                 | <u>Consolidated Balance Sheet Classification</u> | <u>March 31, 2019</u> |
|-------------------------------------------------|--------------------------------------------------|-----------------------|
| <b>Assets</b>                                   |                                                  |                       |
| Operating lease assets, net                     | Other assets, net                                | \$ 29,332             |
| Finance ground lease assets, net <sup>(1)</sup> | Investment in real estate, net                   | 143,810               |
| Total lease assets                              |                                                  | <u>\$ 173,142</u>     |
| <b>Liabilities</b>                              |                                                  |                       |
| Operating lease liabilities                     | Accounts payable and other liabilities           | \$ 12,716             |
| Finance lease liabilities                       | Finance lease liabilities                        | 162,818               |
| Total lease liabilities                         |                                                  | <u>\$ 175,534</u>     |
| Weighted-average remaining lease term           |                                                  |                       |
| Operating leases                                |                                                  | 36 years              |
| Finance leases                                  |                                                  | 33 years              |
| Weighted-average discount rate                  |                                                  |                       |
| Operating leases                                |                                                  | 5.42%                 |
| Finance leases                                  |                                                  | 5.28%                 |

(1) Finance ground lease assets are net of accumulated amortization of approximately \$1.0 million as of March 31, 2019.

Lease Costs for the Three Months Ended March 31, 2019

The following table sets forth the lease costs related to the Company's operating and finance ground leases included in the Company's consolidated statement of operations for the three months ended March 31, 2019 (in thousands):

|                                      | <b>Consolidated Statement of Operations Classification</b> | <b>Three Months<br/>Ended March 31,<br/>2019</b> |
|--------------------------------------|------------------------------------------------------------|--------------------------------------------------|
| Operating lease costs <sup>(1)</sup> | Operating ground lease expense                             | \$ 405                                           |
| Finance lease costs:                 |                                                            |                                                  |
| Amortization of lease assets         | Depreciation and amortization expense                      | 1,041                                            |
| Interest on lease liabilities        | Interest and other expense, net                            | 1,826                                            |
| <b>Total lease costs</b>             |                                                            | <b>\$ 3,272</b>                                  |

(1) Represents costs related to ground leases, including variable lease costs. Excludes costs related to hotel equipment leases, which are included in hotel operating expense and property taxes, insurance and other expense, and costs related to office space leases, which are included in general and administrative expense in the Company's consolidated statement of operations.

Undiscounted Cash Flows

The following table reconciles the undiscounted cash flows for each of the next five years and total of the remaining years to the operating lease liabilities and finance lease liabilities included in the Company's consolidated balance sheet as of March 31, 2019 (in thousands):

|                                                      | <b>Operating leases</b> | <b>Finance leases</b> |
|------------------------------------------------------|-------------------------|-----------------------|
| 2019 (Apr- Dec)                                      | \$ 1,075                | \$ 5,569              |
| 2020                                                 | 1,246                   | 7,385                 |
| 2021                                                 | 1,021                   | 7,552                 |
| 2022                                                 | 854                     | 7,702                 |
| 2023                                                 | 784                     | 8,051                 |
| Thereafter                                           | 33,187                  | 363,147               |
| <b>Total minimum lease payments</b>                  | <b>38,167</b>           | <b>399,406</b>        |
| Less: amount of lease payments representing interest | 25,451                  | 236,588               |
| <b>Present value of lease liabilities</b>            | <b>\$ 12,716</b>        | <b>\$ 162,818</b>     |

Other Information

The following table sets forth supplemental cash flow information related to the Company's operating and finance leases for the three months ended March 31, 2019 (in thousands):

|                                                                         | <b>Three Months<br/>Ended March 31,<br/>2019</b> |
|-------------------------------------------------------------------------|--------------------------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: |                                                  |
| Operating cash flows for operating leases                               | \$ 377                                           |
| Operating cash flows for finance leases                                 | 1,443                                            |

## **10. Subsequent Events**

In April 2019, the Company paid approximately \$22.4 million, or \$0.10 per outstanding common share, in distributions to its common shareholders.

In April 2019, the Company declared a regular monthly cash distribution of \$0.10 per common share for the month of May 2019. The distribution is payable on May 15, 2019.

In April 2019, the Company entered into a purchase contract for the purchase of a hotel to be constructed in Denver, Colorado, for a gross purchase price of a minimum of \$49.1 million, which is subject to adjustment based on the actual number of rooms. The hotel is planned to be a Courtyard by Marriott which is expected to contain a minimum of 182 guest rooms. Although the Company is working towards acquiring this hotel, there are many conditions to closing that have not yet been satisfied, and there can be no assurance that a closing on this hotel will occur.

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

### *Forward-Looking Statements*

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are typically identified by use of statements that include phrases such as “may,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “target,” “goal,” “plan,” “should,” “will,” “predict,” “potential,” “outlook,” “strategy,” and similar expressions that convey the uncertainty of future events or outcomes. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the ability of the Company to effectively acquire and dispose of properties; the ability of the Company to successfully integrate pending transactions and implement its operating strategy; changes in general political, economic and competitive conditions and specific market conditions; adverse changes in the real estate and real estate capital markets; financing risks; litigation risks; regulatory proceedings or inquiries; and changes in laws or regulations or interpretations of current laws and regulations that impact the Company's business, assets or classification as a REIT. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this Quarterly Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company's qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the risk factors described in the Company's filings with the Securities and Exchange Commission (“SEC”), including but not limited to those discussed in the section titled “Risk Factors” in the 2018 Form 10-K. Any forward-looking statement that the Company makes speaks only as of the date of this Quarterly Report. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors, as a result of new information, future events, or otherwise, except as required by law.

The following discussion and analysis should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, as well as the information contained in the 2018 Form 10-K.

### *Overview*

The Company is a Virginia corporation that has elected to be treated as a REIT for federal income tax purposes. The Company is self-advised and invests in income-producing real estate, primarily in the lodging sector, in the U.S. As of March 31, 2019, the Company owned 234 hotels with an aggregate of 30,046 rooms located in urban, high-end suburban and developing markets throughout 34 states. All of the Company's hotels operate under Marriott, Hilton or Hyatt brands. The hotels are operated and managed under separate management agreements with 23 hotel management companies, none of which are affiliated with the Company. The Company's common shares are listed on the NYSE under the ticker symbol “APLE.”

### *New Lease Accounting Standard*

On January 1, 2019, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*, electing to recognize and measure its leases prospectively at the beginning of the period of adoption through a cumulative-effect adjustment to shareholders' equity, without restating the presentation of periods prior to the effective date (the “new lease accounting standard”). Under the new lease accounting standard, beginning in 2019, four of the Company's ground leases that were previously accounted for as operating leases are accounted for as finance leases. For these finance leases, effective January 1, 2019 the Company recognizes depreciation and amortization expense and interest and other expense, net in the Company's consolidated statements of operations, instead of operating ground lease expense. Results prior to January 1, 2019 have not been restated. As a result, the comparability of operating ground lease expense, depreciation and amortization expense, and interest and other expense, net are affected by the implementation of the new lease accounting standard. See Note 1 titled “Organization and Summary of Significant Accounting Policies” and Note 9 titled “Leases” in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for additional information on the adoption of the new lease accounting standard.

## **2019 Hotel Portfolio Activities**

The Company continually monitors market conditions and attempts to maximize shareholder value by investing in properties that it believes provide superior value over the long term. Consistent with this strategy and the Company's focus on investing in rooms-focused hotels, the Company acquired two hotels for an aggregate purchase price of approximately \$52.4 million during the first three months of 2019: a 160-room Hampton Inn & Suites in St. Paul, Minnesota and a 128-room Home2 Suites in Orlando, Florida. Also, as of April 30, 2019, the Company had outstanding contracts for the potential purchase of five hotels that are under development for a total expected purchase price of approximately \$159.2 million, which are planned to be completed and opened for business over the next 15 to 27 months from March 31, 2019, at which time closings on these hotels are expected to occur. The Company utilized its revolving credit facility to fund the completed acquisitions and plans to utilize its credit facilities for any additional acquisitions.

For its existing portfolio, the Company monitors each property's profitability, market conditions and capital requirements and attempts to maximize shareholder value by disposing of properties when it believes that superior value can be provided from the sale of the property. As a result, in March 2019, the Company sold nine hotels for a total combined gross sales price of \$95.0 million. The net proceeds from the sales were used to pay down borrowings on the Company's revolving credit facility.

See Note 2 titled "Investment in Real Estate" and Note 3 titled "Dispositions" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for additional information concerning these transactions.

## **Hotel Operations**

Although hotel performance can be influenced by many factors including local competition, local and general economic conditions in the U.S. and the performance of individual managers assigned to each hotel, performance of the Company's hotels as compared to other hotels within their respective local markets, in general, has met the Company's expectations for the period owned. Over the past several years, improvements in the general U.S. economy have been offset by increased lodging supply in many markets, offsetting increases in demand in the lodging sector. With essentially flat growth in revenue per available room ("RevPAR"), the Company produced stable operating results during the first three months of 2019 on a comparable basis (as defined below). There is no way to predict future economic conditions, and there continue to be additional factors that could negatively affect the lodging industry and the Company, including but not limited to, increased hotel supply in certain markets, labor uncertainty both for the economy as a whole and the lodging industry in particular, global volatility, government fiscal policies and economic concerns in the U.S. The Company, on a comparable basis, is forecasting slightly negative to slightly positive RevPAR growth for the full year of 2019 as compared to 2018, which reflects modestly lower expectations for demand growth, consistent with lower expected Gross Domestic Product growth in the U.S., relatively consistent anticipated hotel supply growth and slightly favorable comparisons caused by natural disasters.

As of March 31, 2019, the Company owned 234 hotels with a total of 30,046 rooms as compared to 241 hotels with a total of 30,585 rooms as of March 31, 2018. Results of operations are included only for the period of ownership for hotels acquired or disposed of during the current reporting period and prior year. During the three months ended March 31, 2019, the Company acquired one existing hotel on March 4, 2019 and one newly constructed hotel on March 19, 2019, and sold nine hotels on March 28, 2019. During 2018, the Company acquired one newly constructed hotel on May 2, 2018 and four existing hotels (two on February 5, 2018, one on June 28, 2018 and one on December 7, 2018), and sold three hotels (two on July 13, 2018 and one on November 29, 2018). As a result, the comparability of results for the three months ended March 31, 2019 and 2018 as discussed below is impacted by these transactions.

In evaluating financial condition and operating performance, the most important indicators on which the Company focuses are revenue measurements, such as average occupancy, average daily rate ("ADR") and RevPAR, and expenses, such as hotel operating expenses, general and administrative expenses and other expenses described below.

The following is a summary of the results from operations of the Company's hotels for their respective periods of ownership by the Company.

| (in thousands, except statistical data)     | Three Months Ended March 31, |                    |            |                    |                |
|---------------------------------------------|------------------------------|--------------------|------------|--------------------|----------------|
|                                             | 2019                         | Percent of Revenue | 2018       | Percent of Revenue | Percent Change |
| Total revenue                               | \$ 303,787                   | 100.0%             | \$ 298,389 | 100.0%             | 1.8%           |
| Hotel operating expense                     | 175,449                      | 57.8%              | 172,329    | 57.8%              | 1.8%           |
| Property taxes, insurance and other expense | 19,208                       | 6.3%               | 17,229     | 5.8%               | 11.5%          |
| Operating ground lease expense              | 405                          | 0.1%               | 2,850      | 1.0%               | -85.8%         |
| General and administrative expense          | 8,137                        | 2.7%               | 6,877      | 2.3%               | 18.3%          |
| Depreciation and amortization expense       | 47,950                       |                    | 44,840     |                    | 6.9%           |
| Gain on sale of real estate                 | 1,213                        |                    | -          |                    | n/a            |
| Interest and other expense, net             | 15,494                       |                    | 11,919     |                    | 30.0%          |
| Income tax expense                          | 206                          |                    | 163        |                    | 26.4%          |
| Number of hotels owned at end of period     | 234                          |                    | 241        |                    | -2.9%          |
| ADR                                         | \$ 136.36                    |                    | \$ 134.32  |                    | 1.5%           |
| Occupancy                                   | 73.9%                        |                    | 74.6%      |                    | -0.9%          |
| RevPAR                                      | \$ 100.71                    |                    | \$ 100.18  |                    | 0.5%           |

Comparable Hotels Operating Results

The following table reflects certain operating statistics for the Company's 234 hotels owned as of March 31, 2019 ("Comparable Hotels"). The Company defines metrics from Comparable Hotels as results generated by the 234 hotels owned as of the end of the reporting period. For the hotels acquired during the current reporting period and prior year, the Company has included, as applicable, results of those hotels for periods prior to the Company's ownership using information provided by the properties' prior owners at the time of acquisition and not adjusted by the Company. This information has not been audited, either for the periods owned or prior to ownership by the Company. For dispositions, results have been excluded for the Company's period of ownership.

|           | Three Months Ended March 31, |           |                |
|-----------|------------------------------|-----------|----------------|
|           | 2019                         | 2018      | Percent Change |
| ADR       | \$ 137.41                    | \$ 135.76 | 1.2%           |
| Occupancy | 74.1%                        | 74.9%     | -1.1%          |
| RevPAR    | \$ 101.76                    | \$ 101.69 | 0.1%           |

Same Store Operating Results

The following table reflects certain operating statistics for the 227 hotels owned by the Company as of January 1, 2018 and during the entirety of the reporting periods being compared ("Same Store Hotels"). This information has not been audited.

|           | Three Months Ended March 31, |           |                |
|-----------|------------------------------|-----------|----------------|
|           | 2019                         | 2018      | Percent Change |
| ADR       | \$ 136.42                    | \$ 135.26 | 0.9%           |
| Occupancy | 74.2%                        | 74.8%     | -0.8%          |
| RevPAR    | \$ 101.23                    | \$ 101.23 | -              |



## Index

As discussed above, hotel performance is impacted by many factors, including the economic conditions in the U.S. as well as each individual locality. Economic indicators in the U.S. have generally been favorable, which has been offset by increased lodging supply in many of the Company's markets. As a result, the Company's revenue and operating results for its Comparable Hotels and Same Store Hotels were generally unchanged during the first three months of 2019 as compared to 2018, which is consistent with industry/brand averages. The Company expects its RevPAR growth and operating results for its Comparable Hotels for the full year of 2019 to be slightly negative to slightly positive compared to its performance in 2018.

### Revenues

The Company's principal source of revenue is hotel revenue consisting of room, food and beverage, and other related revenue. For the three months ended March 31, 2019 and 2018, the Company had total revenue of \$303.8 million and \$298.4 million, respectively. For the three months ended March 31, 2019 and 2018, respectively, Comparable Hotels achieved combined average occupancy of 74.1% and 74.9%, ADR of \$137.41 and \$135.76 and RevPAR of \$101.76 and \$101.69. ADR is calculated as room revenue divided by the number of rooms sold, and RevPAR is calculated as occupancy multiplied by ADR.

Compared to the same period in 2018, during the first quarter of 2019, the Company experienced a 1.2% increase in ADR and a 1.1% decrease in occupancy for Comparable Hotels, leaving RevPAR for Comparable Hotels virtually unchanged. Markets/areas with above average growth in the first quarter of 2019 for the Company and industry included Atlanta, Georgia, Sacramento, California, Raleigh/Durham, North Carolina and Phoenix and Tucson, Arizona. Markets that were below average for the Company and industry included Houston, Texas, Minneapolis, Minnesota and southern Florida. The Company also experienced increased revenue due to demand in the Florida panhandle, eastern North Carolina and Anchorage, Alaska related to recovery and restoration efforts related to hurricanes Florence and Michael and the earthquake in Anchorage, Alaska.

### Hotel Operating Expense

Hotel operating expense consists of direct room operating expense, hotel administrative expense, sales and marketing expense, utilities expense, repair and maintenance expense, franchise fees and management fees. For the three months ended March 31, 2019 and 2018, respectively, hotel operating expense totaled \$175.4 million and \$172.3 million or 57.8% of total revenue for each respective period. For the Company's Comparable Hotels, hotel operating expense as a percentage of revenue increased slightly for the three months ended March 31, 2019 as compared to the same period in 2018. Increases in labor costs as a percentage of revenue during the first three months of 2019 as compared to the same period in 2018 were offset by decreases in utility costs. The Company anticipates continued increases in labor costs due to government regulations surrounding wages, healthcare and other benefits, other wage-related initiatives and lower unemployment rates. The Company will continue to work with its management companies to reduce costs as a percentage of revenue where possible while maintaining quality and service levels at each property.

### Property Taxes, Insurance and Other Expense

Property taxes, insurance, and other expense for the three months ended March 31, 2019 and 2018 totaled \$19.2 million and \$17.2 million, respectively, or 6.3% and 5.8% of total revenue for each respective period, which is consistent with the increase in Comparable Hotels expense as a percentage of revenue for the same periods. For the Company's Comparable Hotels, real estate taxes increased during the first three months of 2019 compared to the first three months of 2018, with tax increases at certain locations due to the reassessment of property values by localities related to the improved economy, partially offset by decreases at other locations due to successful appeals of tax assessments. With the economy continuing to improve, the Company anticipates continued increases in property tax assessments during the remainder of 2019. The Company will continue to appeal tax assessments in certain jurisdictions to attempt to minimize tax increases as warranted. Additionally, due to increased losses incurred by property insurance carriers during the past few years, the Company's property insurance costs increased as a percentage of revenue for the first three months of 2019 as compared to the first three months of 2018 and are anticipated to increase for the remainder of 2019.

### Operating Ground Lease Expense

Operating ground lease expense for the three months ended March 31, 2019 and 2018 was \$0.4 million and \$2.9 million, respectively. Operating ground lease expense in 2019 primarily represents the expense incurred by the Company to lease land for nine of its hotel properties. Operating ground lease expense in 2018 primarily represents the expense incurred by the Company to lease land for 13 of its hotel properties, including approximately \$2.4 million of expense related to four ground leases that were previously classified as operating leases that are classified as finance leases under the new lease accounting standard effective January 1, 2019.

General and Administrative Expense

General and administrative expense for the three months ended March 31, 2019 and 2018 was \$8.1 million and \$6.9 million, respectively, or 2.7% and 2.3% of total revenue for each respective period. The principal components of general and administrative expense are payroll and related benefit costs, legal fees, accounting fees and reporting expenses. The increase in expense was due primarily to increased accruals for anticipated performance under the Company's incentive plans which included an expense of \$0.5 million for the retirement of the Company's Chief Legal Officer.

Depreciation and Amortization Expense

Depreciation expense for the three months ended March 31, 2019 and 2018 was \$48.0 million and \$44.8 million, respectively. Depreciation expense primarily represents expense of the Company's hotel buildings and related improvements, and associated personal property (furniture, fixtures, and equipment) for their respective periods owned. The increase was primarily due to the increase in the number of properties owned as a result of the acquisition of two hotels in the first quarter of 2019 and five hotels in 2018 and renovations completed throughout 2019 and 2018. Additionally, for the three months ended March 31, 2019, depreciation and amortization expense also includes approximately \$1.0 million of expense associated with amortization of the Company's four finance lease ROU assets in accordance with the new lease accounting standard.

Interest and Other Expense, net

Interest and other expense, net for the three months ended March 31, 2019 and 2018 was \$15.5 million and \$11.9 million, respectively, and is net of approximately \$0.5 million in each respective period of interest capitalized associated with renovation projects. Additionally, interest and other expense, net for the three months ended March 31, 2019 includes approximately \$1.8 million of interest recorded on the Company's four finance lease liabilities in accordance with the new lease accounting standard. Interest expense related to the Company's debt increased as a result of increased average borrowings in the first quarter of 2019 as compared to the first quarter of 2018 resulting from acquisitions and share repurchases, partially offset by the repayment of borrowings with proceeds from dispositions, combined with an increase in the Company's effective interest rate during the first quarter of 2019 as compared to the first quarter of 2018, due to an increase in interest rates on the Company's variable-rate debt, with the one-month LIBOR increasing from 1.88% at March 31, 2018 to 2.49% at March 31, 2019. While approximately 77% of the Company's outstanding debt was effectively fixed-rate debt at March 31, 2019, the Company does expect interest costs for its remaining variable-rate debt to be higher in 2019 as compared to the same period in 2018 due to higher expected average interest rates as compared to the prior year. The impact from higher interest rates will be partially mitigated by the Company's 2018 debt refinancing, resulting in lower spreads charged on outstanding borrowings under its revolving credit facility and \$575 million of its outstanding term loans by 10 to 15 basis points, depending on the Company's leverage ratio.

**Non-GAAP Financial Measures**

The Company considers the following non-GAAP financial measures useful to investors as key supplemental measures of its operating performance: Funds from Operations ("FFO"), Modified FFO ("MFFO"), Earnings before Interest, Income Taxes, Depreciation and Amortization ("EBITDA"), Earnings Before Interest, Income Taxes, Depreciation and Amortization for Real Estate ("EBITDAre"), and Adjusted EBITDAre ("Adjusted EBITDAre"). These non-GAAP financial measures should be considered along with, but not as alternatives to, net income, cash flow from operations or any other operating GAAP measure. FFO, MFFO, EBITDA, EBITDAre and Adjusted EBITDAre are not necessarily indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions. Although FFO, MFFO, EBITDA, EBITDAre and Adjusted EBITDAre, as calculated by the Company, may not be comparable to FFO, MFFO, EBITDA, EBITDAre and Adjusted EBITDAre as reported by other companies that do not define such terms exactly as the Company defines such terms, the Company believes these supplemental measures are useful to investors when comparing the Company's results between periods and with other REITs.

FFO and MFFO

The Company calculates and presents FFO in accordance with standards established by the National Association of Real Estate Investment Trusts (“Nareit”), which defines FFO as net income (computed in accordance with GAAP), excluding gains and losses from the sale of certain real estate assets (including gains and losses from change in control), extraordinary items as defined by GAAP, and the cumulative effect of changes in accounting principles, plus real estate related depreciation, amortization and impairments, and adjustments for unconsolidated affiliates. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company’s operations. The Company further believes that by excluding the effects of these items, FFO is useful to investors in comparing its operating performance between periods and between REITs that report FFO using the Nareit definition. FFO as presented by the Company is applicable only to its common shareholders, but does not represent an amount that accrues directly to common shareholders.

The Company further adjusts FFO for the exclusion of amortization of finance ground lease assets, amortization of favorable and unfavorable operating leases, net and non-cash straight-line operating ground lease expense, as these expenses do not reflect the underlying performance of the related hotels. The Company presents MFFO when evaluating its performance because it believes that it provides further useful supplemental information to investors regarding its ongoing operating performance.

The following table reconciles the Company’s GAAP net income to FFO and MFFO for the three months ended March 31, 2019 and 2018 (in thousands).

|                                                                 | Three Months Ended March 31, |           |
|-----------------------------------------------------------------|------------------------------|-----------|
|                                                                 | 2019                         | 2018      |
| Net income                                                      | \$ 38,151                    | \$ 42,182 |
| Depreciation of real estate owned                               | 46,666                       | 44,610    |
| Gain on sale of real estate                                     | (1,213)                      | -         |
| Funds from operations                                           | 83,604                       | 86,792    |
| Amortization of finance ground lease assets                     | 1,041                        | -         |
| Amortization of favorable and unfavorable operating leases, net | 31                           | 206       |
| Non-cash straight-line operating ground lease expense           | 48                           | 904       |
| Modified funds from operations                                  | \$ 84,724                    | \$ 87,902 |

EBITDA, EBITDAre and Adjusted EBITDAre

EBITDA is a commonly used measure of performance in many industries and is defined as net income excluding interest, income taxes, depreciation and amortization. The Company believes EBITDA is useful to investors because it helps the Company and its investors evaluate the ongoing operating performance of the Company by removing the impact of its capital structure (primarily interest expense) and its asset base (primarily depreciation and amortization). In addition, certain covenants included in the agreements governing the Company’s indebtedness use EBITDA, as defined in the specific credit agreement, as a measure of financial compliance.

In addition to EBITDA, the Company also calculates and presents EBITDAre in accordance with standards established by Nareit, which defines EBITDAre as EBITDA, excluding gains and losses from the sale of certain real estate assets (including gains and losses from change in control), plus real estate related impairments, and adjustments to reflect the entity’s share of EBITDAre of unconsolidated affiliates. The Company presents EBITDAre because it believes that it provides further useful information to investors in comparing its operating performance between periods and between REITs that report EBITDAre using the Nareit definition.

The Company also considers the exclusion of non-cash straight-line operating ground lease expense from EBITDAre useful, as this expense does not reflect the underlying performance of the related hotels.

The following table reconciles the Company's GAAP net income to EBITDA, EBITDAre and Adjusted EBITDAre for the three months ended March 31, 2019 and 2018 (in thousands).

|                                                                 | <b>Three Months Ended March 31,</b> |                 |
|-----------------------------------------------------------------|-------------------------------------|-----------------|
|                                                                 | <b>2019</b>                         | <b>2018 (1)</b> |
| Net income                                                      | \$ 38,151                           | \$ 42,182       |
| Depreciation and amortization                                   | 47,950                              | 44,840          |
| Amortization of favorable and unfavorable operating leases, net | 31                                  | 206             |
| Interest and other expense, net                                 | 15,494                              | 11,919          |
| Income tax expense                                              | 206                                 | 163             |
| EBITDA                                                          | 101,832                             | 99,310          |
| Gain on sale of real estate                                     | (1,213)                             | -               |
| EBITDAre                                                        | 100,619                             | 99,310          |
| Non-cash straight-line operating ground lease expense           | 48                                  | 904             |
| Adjusted EBITDAre                                               | \$ 100,667                          | \$ 100,214      |

- (1) EBITDA, EBITDAre and Adjusted EBITDAre for the three months ended March 31, 2018 include approximately \$1.4 million of lease payments recorded to operating ground lease expense related to four of the Company's ground leases that were classified as operating leases during 2018. Under the new lease accounting standard, effective January 1, 2019 these four ground leases are classified as finance leases, for which the Company recognizes depreciation and amortization expense and interest and other expense, net in the Company's consolidated statements of operations (which are both excluded from EBITDA, EBITDAre and Adjusted EBITDAre calculations), instead of operating ground lease expense.

### **Hotels Owned**

As of March 31, 2019, the Company owned 234 hotels with an aggregate of 30,046 rooms located in 34 states. The following tables summarize the number of hotels and rooms by brand and by state:

| <b>Number of Hotels and Guest Rooms by Brand</b> |                         |                        |
|--------------------------------------------------|-------------------------|------------------------|
| <b>Brand</b>                                     | <b>Number of Hotels</b> | <b>Number of Rooms</b> |
| Hilton Garden Inn                                | 41                      | 5,665                  |
| Hampton                                          | 40                      | 5,065                  |
| Courtyard                                        | 37                      | 5,070                  |
| Residence Inn                                    | 33                      | 3,939                  |
| Homewood Suites                                  | 33                      | 3,731                  |
| SpringHill Suites                                | 15                      | 2,040                  |
| Fairfield                                        | 11                      | 1,300                  |
| Home2 Suites                                     | 9                       | 1,038                  |
| TownePlace Suites                                | 9                       | 931                    |
| Marriott                                         | 2                       | 616                    |
| Embassy Suites                                   | 2                       | 316                    |
| Renaissance                                      | 1                       | 208                    |
| Hyatt Place                                      | 1                       | 127                    |
| Total                                            | 234                     | 30,046                 |

**Number of Hotels and Guest Rooms by State**

| <b>State</b>   | <b>Number of<br/>Hotels</b> | <b>Number of<br/>Rooms</b> |
|----------------|-----------------------------|----------------------------|
| Alabama        | 15                          | 1,434                      |
| Alaska         | 2                           | 304                        |
| Arizona        | 12                          | 1,644                      |
| Arkansas       | 3                           | 336                        |
| California     | 27                          | 3,807                      |
| Colorado       | 4                           | 567                        |
| Florida        | 23                          | 2,912                      |
| Georgia        | 6                           | 672                        |
| Idaho          | 2                           | 416                        |
| Illinois       | 8                           | 1,420                      |
| Indiana        | 4                           | 479                        |
| Iowa           | 3                           | 301                        |
| Kansas         | 4                           | 422                        |
| Louisiana      | 3                           | 422                        |
| Maine          | 1                           | 179                        |
| Maryland       | 2                           | 233                        |
| Massachusetts  | 4                           | 466                        |
| Michigan       | 1                           | 148                        |
| Minnesota      | 3                           | 404                        |
| Mississippi    | 2                           | 168                        |
| Missouri       | 4                           | 544                        |
| Nebraska       | 4                           | 621                        |
| New Jersey     | 5                           | 629                        |
| New York       | 4                           | 553                        |
| North Carolina | 11                          | 1,213                      |
| Ohio           | 2                           | 252                        |
| Oklahoma       | 4                           | 545                        |
| Pennsylvania   | 3                           | 391                        |
| South Carolina | 5                           | 538                        |
| Tennessee      | 13                          | 1,502                      |
| Texas          | 31                          | 3,755                      |
| Utah           | 3                           | 393                        |
| Virginia       | 12                          | 1,767                      |
| Washington     | 4                           | 609                        |
| Total          | 234                         | 30,046                     |

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The following table summarizes the location, brand, manager, date acquired or completed and number of rooms for each of the 234 hotels the Company owned as of March 31, 2019.

| City                      | State | Brand             | Manager       | Date Acquired or Completed | Rooms |
|---------------------------|-------|-------------------|---------------|----------------------------|-------|
| Anchorage                 | AK    | Embassy Suites    | Stonebridge   | 4/30/2010                  | 169   |
| Anchorage                 | AK    | Home2 Suites      | Stonebridge   | 12/1/2017                  | 135   |
| Auburn                    | AL    | Hilton Garden Inn | LBA           | 3/1/2014                   | 101   |
| Birmingham                | AL    | Courtyard         | LBA           | 3/1/2014                   | 84    |
| Birmingham                | AL    | Hilton Garden Inn | LBA           | 9/12/2017                  | 104   |
| Birmingham                | AL    | Home2 Suites      | LBA           | 9/12/2017                  | 106   |
| Birmingham                | AL    | Homewood Suites   | McKibbon      | 3/1/2014                   | 95    |
| Dothan                    | AL    | Hilton Garden Inn | LBA           | 6/1/2009                   | 104   |
| Dothan                    | AL    | Residence Inn     | LBA           | 3/1/2014                   | 84    |
| Huntsville                | AL    | Hampton           | LBA           | 9/1/2016                   | 98    |
| Huntsville                | AL    | Hilton Garden Inn | LBA           | 3/1/2014                   | 101   |
| Huntsville                | AL    | Home2 Suites      | LBA           | 9/1/2016                   | 77    |
| Huntsville                | AL    | Homewood Suites   | LBA           | 3/1/2014                   | 107   |
| Mobile                    | AL    | Hampton           | McKibbon      | 9/1/2016                   | 101   |
| Montgomery                | AL    | Hilton Garden Inn | LBA           | 3/1/2014                   | 97    |
| Montgomery                | AL    | Homewood Suites   | LBA           | 3/1/2014                   | 91    |
| Prattville                | AL    | Courtyard         | LBA           | 3/1/2014                   | 84    |
| Rogers                    | AR    | Hampton           | Raymond       | 8/31/2010                  | 122   |
| Rogers                    | AR    | Homewood Suites   | Raymond       | 4/30/2010                  | 126   |
| Rogers                    | AR    | Residence Inn     | Raymond       | 3/1/2014                   | 88    |
| Chandler                  | AZ    | Courtyard         | North Central | 11/2/2010                  | 150   |
| Chandler                  | AZ    | Fairfield         | North Central | 11/2/2010                  | 110   |
| Phoenix                   | AZ    | Courtyard         | North Central | 11/2/2010                  | 164   |
| Phoenix                   | AZ    | Courtyard         | North Central | 9/1/2016                   | 127   |
| Phoenix                   | AZ    | Hampton           | North Central | 9/1/2016                   | 125   |
| Phoenix                   | AZ    | Hampton           | North Central | 5/2/2018                   | 210   |
| Phoenix                   | AZ    | Homewood Suites   | North Central | 9/1/2016                   | 134   |
| Phoenix                   | AZ    | Residence Inn     | North Central | 11/2/2010                  | 129   |
| Scottsdale                | AZ    | Hilton Garden Inn | North Central | 9/1/2016                   | 122   |
| Tucson                    | AZ    | Hilton Garden Inn | Western       | 7/31/2008                  | 125   |
| Tucson                    | AZ    | Residence Inn     | Western       | 3/1/2014                   | 124   |
| Tucson                    | AZ    | TownePlace Suites | Western       | 10/6/2011                  | 124   |
| Agoura Hills              | CA    | Homewood Suites   | Dimension     | 3/1/2014                   | 125   |
| Burbank                   | CA    | Courtyard         | Huntington    | 8/11/2015                  | 190   |
| Burbank                   | CA    | Residence Inn     | Marriott      | 3/1/2014                   | 166   |
| Burbank                   | CA    | SpringHill Suites | Marriott      | 7/13/2015                  | 170   |
| Clovis                    | CA    | Hampton           | Dimension     | 7/31/2009                  | 86    |
| Clovis                    | CA    | Homewood Suites   | Dimension     | 2/2/2010                   | 83    |
| Cypress                   | CA    | Courtyard         | Dimension     | 3/1/2014                   | 180   |
| Cypress                   | CA    | Hampton           | Dimension     | 6/29/2015                  | 110   |
| Oceanside                 | CA    | Courtyard         | Marriott      | 9/1/2016                   | 142   |
| Oceanside                 | CA    | Residence Inn     | Marriott      | 3/1/2014                   | 125   |
| Rancho Bernardo/San Diego | CA    | Courtyard         | InnVentures   | 3/1/2014                   | 210   |
| Sacramento                | CA    | Hilton Garden Inn | Dimension     | 3/1/2014                   | 153   |
| San Bernardino            | CA    | Residence Inn     | InnVentures   | 2/16/2011                  | 95    |

| City                       | State | Brand             | Manager       | Date Acquired or Completed | Rooms |
|----------------------------|-------|-------------------|---------------|----------------------------|-------|
| San Diego                  | CA    | Courtyard         | Huntington    | 9/1/2015                   | 245   |
| San Diego                  | CA    | Hampton           | Dimension     | 3/1/2014                   | 177   |
| San Diego                  | CA    | Hilton Garden Inn | InnVentures   | 3/1/2014                   | 200   |
| San Diego                  | CA    | Residence Inn     | Dimension     | 3/1/2014                   | 121   |
| San Jose                   | CA    | Homewood Suites   | Dimension     | 3/1/2014                   | 140   |
| San Juan Capistrano        | CA    | Residence Inn     | Marriott      | 9/1/2016                   | 130   |
| Santa Ana                  | CA    | Courtyard         | Dimension     | 5/23/2011                  | 155   |
| Santa Clarita              | CA    | Courtyard         | Dimension     | 9/24/2008                  | 140   |
| Santa Clarita              | CA    | Fairfield         | Dimension     | 10/29/2008                 | 66    |
| Santa Clarita              | CA    | Hampton           | Dimension     | 10/29/2008                 | 128   |
| Santa Clarita              | CA    | Residence Inn     | Dimension     | 10/29/2008                 | 90    |
| Tulare                     | CA    | Hampton           | InnVentures   | 3/1/2014                   | 86    |
| Tustin                     | CA    | Fairfield         | Marriott      | 9/1/2016                   | 145   |
| Tustin                     | CA    | Residence Inn     | Marriott      | 9/1/2016                   | 149   |
| Colorado Springs           | CO    | Hampton           | Chartwell     | 9/1/2016                   | 101   |
| Denver                     | CO    | Hilton Garden Inn | Stonebridge   | 9/1/2016                   | 221   |
| Highlands Ranch            | CO    | Hilton Garden Inn | Dimension     | 3/1/2014                   | 128   |
| Highlands Ranch            | CO    | Residence Inn     | Dimension     | 3/1/2014                   | 117   |
| Boca Raton                 | FL    | Hilton Garden Inn | White Lodging | 9/1/2016                   | 149   |
| Cape Canaveral             | FL    | Homewood Suites   | LBA           | 9/1/2016                   | 153   |
| Fort Lauderdale            | FL    | Hampton           | Vista Host    | 12/31/2008                 | 109   |
| Fort Lauderdale            | FL    | Hampton           | LBA           | 6/23/2015                  | 156   |
| Fort Lauderdale            | FL    | Residence Inn     | LBA           | 9/1/2016                   | 156   |
| Gainesville                | FL    | Hilton Garden Inn | McKibbon      | 9/1/2016                   | 104   |
| Gainesville                | FL    | Homewood Suites   | McKibbon      | 9/1/2016                   | 103   |
| Jacksonville               | FL    | Homewood Suites   | McKibbon      | 3/1/2014                   | 119   |
| Jacksonville               | FL    | Hyatt Place       | LBA           | 12/7/2018                  | 127   |
| Lakeland                   | FL    | Courtyard         | LBA           | 3/1/2014                   | 78    |
| Miami                      | FL    | Courtyard         | Dimension     | 3/1/2014                   | 118   |
| Miami                      | FL    | Hampton           | White Lodging | 4/9/2010                   | 121   |
| Miami                      | FL    | Homewood Suites   | Dimension     | 3/1/2014                   | 162   |
| Orlando                    | FL    | Fairfield         | Marriott      | 7/1/2009                   | 200   |
| Orlando                    | FL    | Home2 Suites      | LBA           | 3/19/2019                  | 128   |
| Orlando                    | FL    | SpringHill Suites | Marriott      | 7/1/2009                   | 200   |
| Panama City                | FL    | Hampton           | LBA           | 3/12/2009                  | 95    |
| Panama City                | FL    | TownePlace Suites | LBA           | 1/19/2010                  | 103   |
| Pensacola                  | FL    | TownePlace Suites | McKibbon      | 9/1/2016                   | 97    |
| Sanford                    | FL    | SpringHill Suites | LBA           | 3/1/2014                   | 105   |
| Tallahassee                | FL    | Fairfield         | LBA           | 9/1/2016                   | 97    |
| Tallahassee                | FL    | Hilton Garden Inn | LBA           | 3/1/2014                   | 85    |
| Tampa                      | FL    | Embassy Suites    | White Lodging | 11/2/2010                  | 147   |
| Albany                     | GA    | Fairfield         | LBA           | 1/14/2010                  | 87    |
| Atlanta/Downtown           | GA    | Hampton           | McKibbon      | 2/5/2018                   | 119   |
| Atlanta/Perimeter Dunwoody | GA    | Hampton           | LBA           | 6/28/2018                  | 132   |
| Atlanta                    | GA    | Home2 Suites      | McKibbon      | 7/1/2016                   | 128   |
| Macon                      | GA    | Hilton Garden Inn | LBA           | 3/1/2014                   | 101   |
| Savannah                   | GA    | Hilton Garden Inn | Newport       | 3/1/2014                   | 105   |

| City            | State | Brand             | Manager       | Date Acquired or Completed | Rooms |
|-----------------|-------|-------------------|---------------|----------------------------|-------|
| Cedar Rapids    | IA    | Hampton           | Schulte       | 9/1/2016                   | 103   |
| Cedar Rapids    | IA    | Homewood Suites   | Schulte       | 9/1/2016                   | 95    |
| Davenport       | IA    | Hampton           | Schulte       | 9/1/2016                   | 103   |
| Boise           | ID    | Hampton           | Raymond       | 4/30/2010                  | 186   |
| Boise           | ID    | SpringHill Suites | InnVentures   | 3/1/2014                   | 230   |
| Des Plaines     | IL    | Hilton Garden Inn | Raymond       | 9/1/2016                   | 252   |
| Hoffman Estates | IL    | Hilton Garden Inn | White Lodging | 9/1/2016                   | 184   |
| Mettawa         | IL    | Hilton Garden Inn | White Lodging | 11/2/2010                  | 170   |
| Mettawa         | IL    | Residence Inn     | White Lodging | 11/2/2010                  | 130   |
| Rosemont        | IL    | Hampton           | Raymond       | 9/1/2016                   | 158   |
| Schaumburg      | IL    | Hilton Garden Inn | White Lodging | 11/2/2010                  | 166   |
| Skokie          | IL    | Hampton           | Raymond       | 9/1/2016                   | 225   |
| Warrenville     | IL    | Hilton Garden Inn | White Lodging | 11/2/2010                  | 135   |
| Indianapolis    | IN    | SpringHill Suites | White Lodging | 11/2/2010                  | 130   |
| Merrillville    | IN    | Hilton Garden Inn | White Lodging | 9/1/2016                   | 124   |
| Mishawaka       | IN    | Residence Inn     | White Lodging | 11/2/2010                  | 106   |
| South Bend      | IN    | Fairfield         | White Lodging | 9/1/2016                   | 119   |
| Overland Park   | KS    | Fairfield         | True North    | 3/1/2014                   | 110   |
| Overland Park   | KS    | Residence Inn     | True North    | 3/1/2014                   | 120   |
| Overland Park   | KS    | SpringHill Suites | True North    | 3/1/2014                   | 102   |
| Wichita         | KS    | Courtyard         | Aimbridge     | 3/1/2014                   | 90    |
| Lafayette       | LA    | Hilton Garden Inn | LBA           | 7/30/2010                  | 153   |
| Lafayette       | LA    | SpringHill Suites | LBA           | 6/23/2011                  | 103   |
| New Orleans     | LA    | Homewood Suites   | Dimension     | 3/1/2014                   | 166   |
| Andover         | MA    | SpringHill Suites | Marriott      | 11/5/2010                  | 136   |
| Marlborough     | MA    | Residence Inn     | True North    | 3/1/2014                   | 112   |
| Westford        | MA    | Hampton           | True North    | 3/1/2014                   | 110   |
| Westford        | MA    | Residence Inn     | True North    | 3/1/2014                   | 108   |
| Annapolis       | MD    | Hilton Garden Inn | White Lodging | 3/1/2014                   | 126   |
| Silver Spring   | MD    | Hilton Garden Inn | White Lodging | 7/30/2010                  | 107   |
| Portland        | ME    | Residence Inn     | Pyramid       | 10/13/2017                 | 179   |
| Novi            | MI    | Hilton Garden Inn | White Lodging | 11/2/2010                  | 148   |
| Maple Grove     | MN    | Hilton Garden Inn | North Central | 9/1/2016                   | 120   |
| Rochester       | MN    | Hampton           | Raymond       | 8/3/2009                   | 124   |
| St. Paul        | MN    | Hampton           | Vista Host    | 3/4/2019                   | 160   |
| Kansas City     | MO    | Hampton           | Raymond       | 8/31/2010                  | 122   |
| Kansas City     | MO    | Residence Inn     | True North    | 3/1/2014                   | 106   |
| St. Louis       | MO    | Hampton           | Raymond       | 8/31/2010                  | 190   |
| St. Louis       | MO    | Hampton           | Raymond       | 4/30/2010                  | 126   |
| Hattiesburg     | MS    | Courtyard         | LBA           | 3/1/2014                   | 84    |
| Hattiesburg     | MS    | Residence Inn     | LBA           | 12/11/2008                 | 84    |
| Carolina Beach  | NC    | Courtyard         | Crestline     | 3/1/2014                   | 144   |
| Charlotte       | NC    | Fairfield         | Newport       | 9/1/2016                   | 94    |
| Charlotte       | NC    | Homewood Suites   | McKibbon      | 9/24/2008                  | 118   |
| Durham          | NC    | Homewood Suites   | McKibbon      | 12/4/2008                  | 122   |
| Fayetteville    | NC    | Home2 Suites      | LBA           | 2/3/2011                   | 118   |
| Fayetteville    | NC    | Residence Inn     | Aimbridge     | 3/1/2014                   | 92    |
| Greensboro      | NC    | SpringHill Suites | Newport       | 3/1/2014                   | 82    |



| City                      | State | Brand             | Manager       | Date Acquired or Completed | Rooms |
|---------------------------|-------|-------------------|---------------|----------------------------|-------|
| Jacksonville              | NC    | Home2 Suites      | LBA           | 9/1/2016                   | 105   |
| Wilmington                | NC    | Fairfield         | Crestline     | 3/1/2014                   | 122   |
| Winston-Salem             | NC    | Courtyard         | McKibbon      | 3/1/2014                   | 122   |
| Winston-Salem             | NC    | Hampton           | McKibbon      | 9/1/2016                   | 94    |
| Omaha                     | NE    | Courtyard         | Marriott      | 3/1/2014                   | 181   |
| Omaha                     | NE    | Hampton           | White Lodging | 9/1/2016                   | 139   |
| Omaha                     | NE    | Hilton Garden Inn | White Lodging | 9/1/2016                   | 178   |
| Omaha                     | NE    | Homewood Suites   | White Lodging | 9/1/2016                   | 123   |
| Cranford                  | NJ    | Homewood Suites   | Dimension     | 3/1/2014                   | 108   |
| Mahwah                    | NJ    | Homewood Suites   | Dimension     | 3/1/2014                   | 110   |
| Mount Laurel              | NJ    | Homewood Suites   | Newport       | 1/11/2011                  | 118   |
| Somerset                  | NJ    | Courtyard         | Newport       | 3/1/2014                   | 162   |
| West Orange               | NJ    | Courtyard         | Newport       | 1/11/2011                  | 131   |
| Islip/Ronkonkoma          | NY    | Hilton Garden Inn | White Lodging | 3/1/2014                   | 165   |
| New York                  | NY    | Renaissance       | Highgate      | 3/1/2014                   | 208   |
| Syracuse                  | NY    | Courtyard         | New Castle    | 10/16/2015                 | 102   |
| Syracuse                  | NY    | Residence Inn     | New Castle    | 10/16/2015                 | 78    |
| Mason                     | OH    | Hilton Garden Inn | Schulte       | 9/1/2016                   | 110   |
| Twinsburg                 | OH    | Hilton Garden Inn | Interstate    | 10/7/2008                  | 142   |
| Oklahoma City             | OK    | Hampton           | Raymond       | 5/28/2010                  | 200   |
| Oklahoma City             | OK    | Hilton Garden Inn | Raymond       | 9/1/2016                   | 155   |
| Oklahoma City             | OK    | Homewood Suites   | Raymond       | 9/1/2016                   | 100   |
| Oklahoma City (West)      | OK    | Homewood Suites   | Chartwell     | 9/1/2016                   | 90    |
| Collegeville/Philadelphia | PA    | Courtyard         | White Lodging | 11/15/2010                 | 132   |
| Malvern/Philadelphia      | PA    | Courtyard         | White Lodging | 11/30/2010                 | 127   |
| Pittsburgh                | PA    | Hampton           | Vista Host    | 12/31/2008                 | 132   |
| Charleston                | SC    | Home2 Suites      | LBA           | 9/1/2016                   | 122   |
| Columbia                  | SC    | Hilton Garden Inn | Newport       | 3/1/2014                   | 143   |
| Columbia                  | SC    | TownePlace Suites | Newport       | 9/1/2016                   | 91    |
| Greenville                | SC    | Residence Inn     | McKibbon      | 3/1/2014                   | 78    |
| Hilton Head               | SC    | Hilton Garden Inn | McKibbon      | 3/1/2014                   | 104   |
| Chattanooga               | TN    | Homewood Suites   | LBA           | 3/1/2014                   | 76    |
| Franklin                  | TN    | Courtyard         | Chartwell     | 9/1/2016                   | 126   |
| Franklin                  | TN    | Residence Inn     | Chartwell     | 9/1/2016                   | 124   |
| Jackson                   | TN    | Hampton           | Vista Host    | 12/30/2008                 | 85    |
| Johnson City              | TN    | Courtyard         | LBA           | 9/25/2009                  | 90    |
| Knoxville                 | TN    | Homewood Suites   | McKibbon      | 9/1/2016                   | 103   |
| Knoxville                 | TN    | SpringHill Suites | McKibbon      | 9/1/2016                   | 103   |
| Knoxville                 | TN    | TownePlace Suites | McKibbon      | 9/1/2016                   | 97    |
| Memphis                   | TN    | Hampton           | Crestline     | 2/5/2018                   | 144   |
| Memphis                   | TN    | Homewood Suites   | Hilton        | 3/1/2014                   | 140   |
| Nashville                 | TN    | Hilton Garden Inn | Vista Host    | 9/30/2010                  | 194   |
| Nashville                 | TN    | Home2 Suites      | Vista Host    | 5/31/2012                  | 119   |
| Nashville                 | TN    | TownePlace Suites | LBA           | 9/1/2016                   | 101   |
| Addison                   | TX    | SpringHill Suites | Marriott      | 3/1/2014                   | 159   |
| Allen                     | TX    | Hampton           | Interstate    | 9/26/2008                  | 103   |
| Allen                     | TX    | Hilton Garden Inn | Interstate    | 10/31/2008                 | 150   |
| Arlington                 | TX    | Hampton           | Western       | 12/1/2010                  | 98    |

| City                | State | Brand             | Manager       | Date Acquired or Completed | Rooms  |
|---------------------|-------|-------------------|---------------|----------------------------|--------|
| Austin              | TX    | Courtyard         | White Lodging | 11/2/2010                  | 145    |
| Austin              | TX    | Fairfield         | White Lodging | 11/2/2010                  | 150    |
| Austin              | TX    | Hampton           | Vista Host    | 4/14/2009                  | 124    |
| Austin              | TX    | Hilton Garden Inn | White Lodging | 11/2/2010                  | 117    |
| Austin              | TX    | Homewood Suites   | Vista Host    | 4/14/2009                  | 97     |
| Austin/Round Rock   | TX    | Homewood Suites   | Vista Host    | 9/1/2016                   | 115    |
| Beaumont            | TX    | Residence Inn     | Western       | 10/29/2008                 | 133    |
| Burleson/Fort Worth | TX    | Hampton           | LBA           | 10/7/2014                  | 88     |
| Dallas              | TX    | Homewood Suites   | Western       | 9/1/2016                   | 130    |
| Denton              | TX    | Homewood Suites   | Chartwell     | 9/1/2016                   | 107    |
| El Paso             | TX    | Hilton Garden Inn | Western       | 12/19/2011                 | 145    |
| El Paso             | TX    | Homewood Suites   | Western       | 3/1/2014                   | 114    |
| Fort Worth          | TX    | Courtyard         | LBA           | 2/2/2017                   | 124    |
| Fort Worth          | TX    | TownePlace Suites | Western       | 7/19/2010                  | 140    |
| Frisco              | TX    | Hilton Garden Inn | Western       | 12/31/2008                 | 102    |
| Grapevine           | TX    | Hilton Garden Inn | Western       | 9/24/2010                  | 110    |
| Houston             | TX    | Courtyard         | LBA           | 9/1/2016                   | 124    |
| Houston             | TX    | Marriott          | Western       | 1/8/2010                   | 206    |
| Houston             | TX    | Residence Inn     | Western       | 3/1/2014                   | 129    |
| Houston             | TX    | Residence Inn     | Western       | 9/1/2016                   | 120    |
| Irving              | TX    | Homewood Suites   | Western       | 12/29/2010                 | 77     |
| Lewisville          | TX    | Hilton Garden Inn | Interstate    | 10/16/2008                 | 165    |
| Round Rock          | TX    | Hampton           | Vista Host    | 3/6/2009                   | 94     |
| San Antonio         | TX    | TownePlace Suites | Western       | 3/1/2014                   | 106    |
| Shenandoah          | TX    | Courtyard         | LBA           | 9/1/2016                   | 124    |
| Stafford            | TX    | Homewood Suites   | Western       | 3/1/2014                   | 78     |
| Texarkana           | TX    | Hampton           | Aimbridge     | 1/31/2011                  | 81     |
| Provo               | UT    | Residence Inn     | Dimension     | 3/1/2014                   | 114    |
| Salt Lake City      | UT    | Residence Inn     | Huntington    | 10/20/2017                 | 136    |
| Salt Lake City      | UT    | SpringHill Suites | White Lodging | 11/2/2010                  | 143    |
| Alexandria          | VA    | Courtyard         | Marriott      | 3/1/2014                   | 178    |
| Alexandria          | VA    | SpringHill Suites | Marriott      | 3/28/2011                  | 155    |
| Charlottesville     | VA    | Courtyard         | Crestline     | 3/1/2014                   | 139    |
| Manassas            | VA    | Residence Inn     | Crestline     | 2/16/2011                  | 107    |
| Richmond            | VA    | Courtyard         | White Lodging | 12/8/2014                  | 135    |
| Richmond            | VA    | Marriott          | White Lodging | 3/1/2014                   | 410    |
| Richmond            | VA    | Residence Inn     | White Lodging | 12/8/2014                  | 75     |
| Richmond            | VA    | SpringHill Suites | McKibbon      | 9/1/2016                   | 103    |
| Suffolk             | VA    | Courtyard         | Crestline     | 3/1/2014                   | 92     |
| Suffolk             | VA    | TownePlace Suites | Crestline     | 3/1/2014                   | 72     |
| Virginia Beach      | VA    | Courtyard         | Crestline     | 3/1/2014                   | 141    |
| Virginia Beach      | VA    | Courtyard         | Crestline     | 3/1/2014                   | 160    |
| Kirkland            | WA    | Courtyard         | InnVentures   | 3/1/2014                   | 150    |
| Seattle             | WA    | Residence Inn     | InnVentures   | 3/1/2014                   | 234    |
| Tukwila             | WA    | Homewood Suites   | Dimension     | 3/1/2014                   | 106    |
| Vancouver           | WA    | SpringHill Suites | InnVentures   | 3/1/2014                   | 119    |
| Total               |       |                   |               |                            | 30,046 |

### ***Related Parties***

The Company has, and is expected to continue to engage in, transactions with related parties. These transactions cannot be construed to be at arm's length and the results of the Company's operations may be different if these transactions were conducted with non-related parties. See Note 6 titled "Related Parties" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for additional information concerning the Company's related party transactions.

### ***Liquidity and Capital Resources***

#### **Capital Resources**

The Company's principal daily sources of liquidity are the operating cash flow generated from the Company's properties and availability under its revolving credit facility. Periodically, the Company may receive proceeds from strategic additional secured and unsecured debt financing, dispositions of its hotel properties and offerings of the Company's common shares.

As of March 31, 2019, the Company had \$1.4 billion of total outstanding debt consisting of \$485.4 million of mortgage debt and \$925.4 million outstanding under its credit facilities, excluding unamortized debt issuance costs and fair value adjustments. The Company's unused borrowing capacity under its \$425 million revolving credit facility as of March 31, 2019 was \$234.6 million, which is available for acquisitions, hotel renovations, share repurchases, working capital and other general corporate funding purposes, including the payment of distributions to shareholders.

The credit agreements governing the credit facilities contain mandatory prepayment requirements, customary affirmative covenants, negative covenants and events of default. The credit agreements require that the Company comply with various covenants, which include, among others, a minimum tangible net worth, maximum debt limits, minimum interest and fixed charge coverage ratios and restrictions on certain investments. The Company was in compliance with the applicable covenants at March 31, 2019.

See Note 4 titled "Debt" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for a description of the Company's debt instruments as of March 31, 2019.

During the first quarter of 2019, the Company completed the sale of nine hotels for a total gross sales price of \$95.0 million and completed the acquisition of two hotels for a total gross purchase price of approximately \$52.4 million. The Company used the proceeds from the sale to reduce its outstanding balance on its revolving credit facility and utilized availability under the revolving credit facility to acquire the two hotels.

In addition, the Company has a universal shelf registration statement on Form S-3 (No. 333-231021) that was automatically effective upon filing on April 25, 2019. The Company may offer an indeterminate number or amount, as the case may be, of (1) common shares, no par value per share; (2) preferred shares, no par value per share; (3) depository shares representing its preferred shares; (4) warrants exercisable for the Company's common shares, preferred shares or depository shares representing preferred shares; (5) rights to purchase common shares; and (6) unsecured senior or subordinate debt securities, all of which may be issued from time to time on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

#### **Capital Uses**

The Company anticipates that cash flow from operations, availability under its credit facilities, additional borrowings and proceeds from hotel dispositions and equity offerings will be adequate to meet its anticipated liquidity requirements, including debt service, hotel acquisitions, hotel renovations, share repurchases, and required distributions to shareholders (the Company is not required to make distributions at its current rate for REIT purposes).

#### **Distributions**

To maintain its REIT status, the Company is required to distribute at least 90% of its ordinary income. Distributions paid during the three months ended March 31, 2019 totaled approximately \$67.2 million or \$0.30 per common share and were paid at a monthly rate of \$0.10 per common share. For the same period, the Company's net cash generated from operations was approximately \$56.2 million. This shortfall includes a return of capital and was funded primarily by borrowings on the Company's revolving credit facility. At this time, the Company does not anticipate distributions for the full year of 2019 to exceed net cash generated from operations.

The Company's current annual distribution rate, payable monthly, is \$1.20 per common share. As it has done historically, due to seasonality, the Company may use its revolving credit facility to maintain the consistency of the monthly distribution rate, taking into consideration any acquisitions, dispositions, capital improvements and economic cycles. Any distribution will be subject to approval of the Company's Board of Directors and there can be no assurance of the classification or duration of distributions at the current annual distribution rate. The Board of Directors monitors the Company's distribution rate relative to the performance of its hotels on an ongoing basis and may make adjustments to the distribution rate as determined to be prudent in relation to other cash requirements of the Company. If cash flow from operations and the revolving credit facility are not adequate to meet liquidity requirements, the Company may utilize additional financing sources to make distributions. Although the Company has relatively low levels of debt, there can be no assurances it will be successful with this strategy and may need to reduce its distributions to required levels. If the Company were unable to extend its maturing debt in future periods or if it were to default on its debt, it may be unable to make distributions.

#### *Share Repurchases*

During 2018, the Company's Board of Directors approved an extension of its existing Share Repurchase Program, authorizing share repurchases up to an aggregate of \$464 million. The Share Repurchase Program may be suspended or terminated at any time by the Company and will end in July 2019 if not terminated earlier. During the three months ended March 31, 2019, the Company purchased, under its Share Repurchase Program, approximately 0.3 million of its common shares at a weighted-average market purchase price of approximately \$14.93 per common share for an aggregate purchase price, including commissions, of approximately \$4.1 million. During the three months ended March 31, 2018, the Company purchased, under its Share Repurchase Program, approximately 0.3 million of its common shares at a weighted-average market purchase price of approximately \$16.89 per common share for an aggregate purchase price, including commissions, of approximately \$4.3 million. Repurchases under the Share Repurchase Program have been funded, and the Company intends to fund future repurchases, with availability under its credit facilities. As of March 31, 2019, approximately \$359.9 million remained available for purchase under the Share Repurchase Program. The timing of share repurchases and the number of common shares to be repurchased under the Share Repurchase Program will depend upon prevailing market conditions, regulatory requirements and other factors.

#### *Capital Improvements*

The Company has ongoing capital commitments to fund its capital improvements. To maintain and enhance each property's competitive position in its market, the Company has invested in and plans to continue to reinvest in its hotels. Under certain loan and management agreements, the Company is required to place in escrow funds for the repair, replacement and refurbishing of furniture, fixtures, and equipment, based on a percentage of gross revenues, provided that such amount may be used for the Company's capital expenditures with respect to the hotels. As of March 31, 2019, the Company held \$28.9 million in reserve related to these properties. During the three months ended March 31, 2019, the Company invested approximately \$18.7 million in capital expenditures and anticipates spending an additional \$60 million to \$70 million during the remainder of 2019, which includes various scheduled renovation projects for approximately 20 to 25 properties. The Company does not currently have any existing or planned projects for development.

#### *Hotel Contract Commitments*

As of April 30, 2019, the Company had outstanding contracts for the potential purchase of five hotels for a total expected purchase price of approximately \$159.2 million. All five hotels are under development and are planned to be completed and opened for business over the next 15 to 27 months from March 31, 2019, at which time closings on these hotels are expected to occur. Although the Company is working towards acquiring these five hotels, there are many conditions to closing that have not yet been satisfied and there can be no assurance that closings on these hotels will occur under the outstanding purchase contracts. It is anticipated that the purchase price for the five hotels will be funded through the Company's credit facilities.

#### *Cash Management Activities*

As part of the cost sharing arrangements discussed in Note 6 titled "Related Parties" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, certain day-to-day transactions may result in amounts due to or from the Company and ARG. To efficiently manage cash disbursements, the Company or ARG may make payments for the other company. Under the cash management process, each company may advance or defer up to \$1 million at any time. Each quarter, any outstanding amounts are settled between the companies. This process allows each company to minimize its cash on hand and reduces the cost for each company. The amounts outstanding at any point in time are not significant to either of the companies.

### ***Business Interruption***

Being in the real estate industry, the Company is exposed to natural disasters on both a local and national scale. Although management believes there is adequate insurance to cover this exposure, there can be no assurance that such events will not have a material adverse effect on the Company's financial position or results of operations.

### ***Seasonality***

The hotel industry historically has been seasonal in nature. Seasonal variations in occupancy at the Company's hotels may cause quarterly fluctuations in its revenues. Generally, occupancy rates and hotel revenues are greater in the second and third quarters than in the first and fourth quarters. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, the Company expects to utilize cash on hand or available financing sources to meet cash requirements.

### ***New Accounting Standards***

See Note 1 titled "Organization and Summary of Significant Accounting Policies" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for information on the adoption of the new lease accounting standard on January 1, 2019.

### ***Subsequent Events***

In April 2019, the Company paid approximately \$22.4 million, or \$0.10 per outstanding common share, in distributions to its common shareholders.

In April 2019, the Company declared a regular monthly cash distribution of \$0.10 per common share for the month of May 2019. The distribution is payable on May 15, 2019.

In April 2019, the Company entered into a purchase contract for the purchase of a hotel to be constructed in Denver, Colorado, for a gross purchase price of a minimum of \$49.1 million, which is subject to adjustment based on the actual number of rooms. The hotel is planned to be a Courtyard by Marriott which is expected to contain a minimum of 182 guest rooms. Although the Company is working towards acquiring this hotel, there are many conditions to closing that have not yet been satisfied, and there can be no assurance that a closing on this hotel will occur.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of March 31, 2019, the Company's financial instruments were not exposed to significant market risk due to foreign currency exchange risk, commodity price risk or equity price risk. However, the Company is exposed to interest rate risk due to possible changes in short term interest rates as it invests its cash or borrows on its revolving credit facility and due to the portion of its variable-rate term debt that is not fixed by interest rate swaps. As of March 31, 2019, after giving effect to interest rate swaps, as described below, approximately \$317.9 million, or approximately 23% of the Company's total debt outstanding, was subject to variable interest rates. Based on the Company's variable-rate debt outstanding as of March 31, 2019, every 100 basis points change in interest rates will impact the Company's annual net income by approximately \$3.2 million, all other factors remaining the same. With the exception of interest rate swap transactions, the Company has not engaged in transactions in derivative financial instruments or derivative commodity instruments. The Company's cash and cash equivalents at March 31, 2019 were \$0.

As of March 31, 2019, the Company's variable-rate debt consisted of its credit facilities, including borrowings outstanding under its \$425 million revolving credit facility and \$735 million of term loans. Currently, the Company uses interest rate swaps to manage its interest rate risk on a portion of its variable-rate debt. As of March 31, 2019, the Company had seven interest rate swap agreements that effectively fix the interest payments on approximately \$607.5 million of the Company's variable-rate debt outstanding. In addition, in December 2018, the Company entered into two interest rate swap agreements which, beginning January 31, 2020 and May 18, 2020, will effectively fix the interest rate on \$25 million and \$50 million, respectively, of its variable-rate debt. Under the terms of all of the Company's interest rate swaps, the Company pays a fixed rate of interest and receives a floating rate of interest equal to the one-month LIBOR.

In addition to its variable-rate debt and interest rate swaps discussed above, the Company has assumed or originated fixed interest rate mortgages payable to lenders under permanent financing arrangements. The following table summarizes the annual maturities and average interest rates of the Company's mortgage debt and borrowings outstanding under its credit facilities at March 31, 2019. All dollar amounts are in thousands.

|                                       | April 1 -<br>December 31,<br>2019 | 2020      | 2021      | 2022       | 2023       | Thereafter | Total        | Fair<br>Market<br>Value |
|---------------------------------------|-----------------------------------|-----------|-----------|------------|------------|------------|--------------|-------------------------|
| Total debt:                           |                                   |           |           |            |            |            |              |                         |
| Maturities                            | \$ 30,391                         | \$ 28,349 | \$ 47,586 | \$ 299,652 | \$ 295,615 | \$ 709,165 | \$ 1,410,758 | \$ 1,405,036            |
| Average interest rates <sup>(1)</sup> | 3.8%                              | 3.9%      | 4.0%      | 4.0%       | 4.0%       | 4.1%       |              |                         |
| Variable rate debt:                   |                                   |           |           |            |            |            |              |                         |
| Maturities                            | \$ -                              | \$ -      | \$ -      | \$ 190,400 | \$ 250,000 | \$ 485,000 | \$ 925,400   | \$ 926,103              |
| Average interest rates <sup>(1)</sup> | 3.5%                              | 3.6%      | 3.8%      | 3.9%       | 3.9%       | 4.1%       |              |                         |
| Fixed rate debt:                      |                                   |           |           |            |            |            |              |                         |
| Maturities                            | \$ 30,391                         | \$ 28,349 | \$ 47,586 | \$ 109,252 | \$ 45,615  | \$ 224,165 | \$ 485,358   | \$ 478,933              |
| Average interest rates                | 4.4%                              | 4.4%      | 4.4%      | 4.2%       | 4.1%       | 4.1%       |              |                         |

(1) The average interest rate gives effect to interest rate swaps, as applicable.

#### Item 4. Controls and Procedures

Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2019. There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is or may be a party to various legal proceedings that arise in the ordinary course of business. The Company is not currently involved in any litigation nor, to management's knowledge, is any litigation threatened against the Company where the outcome would, in management's judgment based on information currently available to the Company, have a material adverse effect on the Company's consolidated financial position or results of operations.

**Item 1A. Risk Factors**

For a discussion of the Company's potential risks and uncertainties, see the section titled "Risk Factors" in the 2018 Form 10-K. There have been no material changes to the risk factors previously disclosed in the 2018 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following is a summary of all share repurchases during the first quarter of 2019.

| Period                         | Issuer Purchases of Equity Securities |                              |                                                                                  |                                                                                                                        |
|--------------------------------|---------------------------------------|------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                | (a)                                   | (b)                          | (c)                                                                              | (d)                                                                                                                    |
|                                | Total Number of Shares Purchased      | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) <sup>(1)</sup> |
| January 1 - January 31, 2019   | 244,800                               | \$ 14.81                     | 244,800                                                                          | \$ 360,400                                                                                                             |
| February 1 - February 28, 2019 | 27,979                                | \$ 15.95                     | 27,979                                                                           | \$ 359,900                                                                                                             |
| March 1 - March 31, 2019       | 31,156 <sup>(2)</sup>                 | \$ 16.46                     | 1,400                                                                            | \$ 359,900                                                                                                             |
| Total                          | 303,935                               |                              | 274,179                                                                          |                                                                                                                        |

- (1) Represents amount outstanding under the Company's authorized \$464 million share repurchase program. This program may be suspended or terminated at any time by the Company. If not terminated earlier, the program will end in July 2019. Refer to Note 7 titled "Shareholders' Equity" in the Company's Unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, for more information on the Company's share repurchase program.
- (2) Includes 29,756 common shares surrendered to the Company to satisfy tax withholding obligations associated with the issuance of common shares awarded to employees.

**Item 6. Exhibits**

| <u>Exhibit Number</u> | <u>Description of Documents</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                   | <a href="#">Amended and Restated Articles of Incorporation of the Company, as amended (Incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q (SEC File No. 001-37389) filed August 6, 2018)</a>                                                                                                                                                                                                                                                                                      |
| 3.2                   | <a href="#">Second Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K (SEC File No. 001-37389) filed February 18, 2016)</a>                                                                                                                                                                                                                                                                                                              |
| 10.1*                 | <a href="#">First Amendment to the Company's Executive Severance Pay Plan (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K (SEC File No. 001-37389) filed March 27, 2019)</a>                                                                                                                                                                                                                                                                                                    |
| 10.2*                 | <a href="#">Separation Agreement and General Release, dated as of March 22, 2019, by and between the Company and David P. Buckley (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K (SEC File No. 001-37389) filed March 27, 2019)</a>                                                                                                                                                                                                                                            |
| 31.1                  | <a href="#">Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (FILED HEREWITH)</a>                                                                                                                                                                                                                                                                                                                                                                      |
| 31.2                  | <a href="#">Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (FILED HEREWITH)</a>                                                                                                                                                                                                                                                                                                                                                                      |
| 32.1                  | <a href="#">Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (FURNISHED HEREWITH)</a>                                                                                                                                                                                                                                                                                        |
| 101                   | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these financial statements, tagged as blocks of text and in detail <b>(FILED HEREWITH)</b> |

\* Denotes Management Contract or Compensation Plan





## CERTIFICATION

I, Justin G. Knight, certify that:

1. I have reviewed this report on Form 10-Q of Apple Hospitality REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Justin G. Knight  

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**Justin G. Knight**  
**President and Chief Executive Officer**  
**Apple Hospitality REIT, Inc.**

## CERTIFICATION

I, Bryan Peery, certify that:

1. I have reviewed this report on Form 10-Q of Apple Hospitality REIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Bryan Peery  
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**Bryan Peery**  
**Chief Financial Officer**  
**Apple Hospitality REIT, Inc.**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Apple Hospitality REIT, Inc., (the “Company”) on Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of March 31, 2019 and for the period then ended.

**Apple Hospitality REIT, Inc.**

*/s/ Justin G. Knight*

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**Justin G. Knight**  
**President and Chief Executive Officer**

*/s/ Bryan Peery*

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**Bryan Peery**  
**Chief Financial Officer**

May 8, 2019