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Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

☐ **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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐(Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Number of registrant's common shares outstanding as of August 1, 2018: 230,347,462

Apple Hospitality REIT, Inc.
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This Form 10-Q includes references to certain trademarks or service marks. The Courtyard by Marriott®, Fairfield Inn by Marriott®, Fairfield Inn & Suites by Marriott®, Marriott® Hotels, Renaissance® Hotels, Residence Inn by Marriott®, SpringHill Suites by Marriott® and TownePlace Suites by Marriott® trademarks are the property of Marriott International, Inc. or one of its affiliates. The Embassy Suites by Hilton®, Hampton by Hilton®, Hampton Inn & Suites by Hilton®, Hilton® Hotels & Resorts, Hilton Garden Inn®, Home2 Suites by Hilton® and Homewood Suites by Hilton® trademarks are the property of Hilton Worldwide Holdings Inc. or one or more of its affiliates. The Hyatt House® and Hyatt Place® trademarks are the property of Hyatt Hotels Corporation or one or more of its affiliates. For convenience, the applicable trademark or service mark symbol has been omitted but will be deemed to be included wherever the above referenced terms are used.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Investment in real estate, net of accumulated depreciation of $818,794 and $731,284, respectively	$ 4,858,216	$ 4,793,159
Assets held for sale	9,800	-
Restricted cash-furniture, fixtures and other escrows	32,279	29,791
Due from third party managers, net	61,660	31,457
Other assets, net	56,929	47,931
Total Assets	$ 5,018,884	$ 4,902,338
Liabilities		
Revolving credit facility	$ 218,400	$ 106,900
Term loans	656,860	656,279
Mortgage debt	496,916	459,017
Accounts payable and other liabilities	89,471	109,057
Total Liabilities	1,461,647	1,331,253
Shareholders' Equity		
Preferred stock, authorized 30,000,000 shares; none issued and outstanding	-	-
Common stock, no par value, authorized 800,000,000 shares; issued and outstanding 230,347,462 and 229,961,548 shares, respectively	4,594,700	4,588,188
Accumulated other comprehensive income	17,810	9,778
Distributions greater than net income	(1,055,273)	(1,026,881)
Total Shareholders' Equity	3,557,237	3,571,085
Total Liabilities and Shareholders' Equity	$ 5,018,884	$ 4,902,338

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Room	$ 319,022	$ 306,283	$ 593,858	$ 575,676
Food and beverage	16,518	17,932	32,228	34,665
Other	9,174	7,489	17,017	14,288
Total revenue	344,714	331,704	643,103	624,629
Expenses:				
Operating	81,242	80,345	157,196	155,499
Hotel administrative	26,558	25,217	51,660	50,053
Sales and marketing	28,168	26,270	53,500	50,379
Utilities	10,247	10,193	20,530	19,946
Repair and maintenance	13,476	12,279	25,929	24,195
Franchise fees	14,781	14,163	27,514	26,637
Management fees	12,059	11,545	22,531	21,757
Property taxes, insurance and other	18,681	17,821	35,910	34,748
Ground lease	2,912	2,839	5,762	5,655
General and administrative	6,721	6,151	13,598	12,905
Transaction and litigation costs (reimbursements)	-	(2,586)	-	(2,586)
Loss on impairment of depreciable real estate assets	3,135	-	3,135	7,875
Depreciation	45,743	43,893	90,583	87,660
Total expenses	263,723	248,130	507,848	494,723
Operating income	80,991	83,574	135,255	129,906
Interest and other expense, net	(13,210)	(11,849)	(25,129)	(23,566)
Gain on sale of real estate	-	16,140	-	16,140
Income before income taxes	67,781	87,865	110,126	122,480
Income tax expense	(151)	(259)	(314)	(509)
Net income	$ 67,630	$ 87,606	$ 109,812	$ 121,971
Other comprehensive income (loss):				
Interest rate derivatives	1,740	(1,175)	8,032	370
Comprehensive income	$ 69,370	$ 86,431	$ 117,844	$ 122,341
Basic and diluted net income per common share	$ 0.29	$ 0.39	$ 0.48	$ 0.55
Weighted average common shares outstanding - basic and diluted	230,342	223,052	230,428	223,049

See notes to consolidated financial statements.

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 109,812	$ 121,971
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	90,583	87,660
Loss on impairment of depreciable real estate assets	3,135	7,875
Gain on sale of real estate	-	(16,140)
Other non-cash expenses, net	3,993	3,617
Changes in operating assets and liabilities:		
Increase in due from third party managers, net	(30,542)	(26,206)
Decrease (increase) in other assets, net	(3,703)	7,058
Decrease in accounts payable and other liabilities	(6,910)	(30,897)
Net cash provided by operating activities	166,368	154,938
Cash flows from investing activities:		
Acquisition of hotel properties, net	(135,164)	(18,131)
Deposits and other disbursements for potential acquisitions	(362)	-
Capital improvements	(39,079)	(28,866)
Net proceeds from sale of real estate	-	28,531
Net cash used in investing activities	(174,605)	(18,466)
Cash flows from financing activities:		
Net proceeds related to issuance of common shares	4,677	-
Repurchases of common shares	(4,304)	-
Repurchases of common shares to satisfy employee withholding requirements	(876)	(432)
Distributions paid to common shareholders	(138,204)	(133,811)
Net proceeds from revolving credit facility	111,500	31,300
Proceeds from mortgage debt	44,000	-
Payments of mortgage debt	(6,068)	(34,590)
Financing costs	-	(120)
Net cash provided by (used in) financing activities	10,725	(137,653)
Net change in cash, cash equivalents and restricted cash	2,488	(1,181)
Cash, cash equivalents and restricted cash, beginning of period	29,791	29,425
Cash, cash equivalents and restricted cash, end of period	$ 32,279	$ 28,244
Supplemental cash flow information:		
Interest paid	$ 24,448	$ 23,532
Supplemental disclosure of noncash investing and financing activities:		
Accrued distribution to common shareholders	$ 23,020	$ 22,301
Mortgage debt assumed by buyer upon sale of real estate	$ -	$ 27,073
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents, beginning of period	$ -	$ -
Restricted cash-furniture, fixtures and other escrows, beginning of period	29,791	29,425
Cash, cash equivalents and restricted cash, beginning of period	$ 29,791	$ 29,425
Cash and cash equivalents, end of period	$ -	$ -
Restricted cash-furniture, fixtures and other escrows, end of period	32,279	28,244
Cash, cash equivalents and restricted cash, end of period	$ 32,279	$ 28,244

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. 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 June 30, 2018, the Company owned 243 hotels with an aggregate of 30,929 rooms located in 34 states, including two hotels with an aggregate of 175 rooms classified as held for sale, which were sold to an unrelated party in July 2018. 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 United States 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, 2017 (the "2017 Form 10-K"). Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the twelve month period ending December 31, 2018.

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 line items in the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017, and the consolidated statements of cash flows for the six months ended June 30, 2017 have been reclassified to conform to the current year presentation. Reclassifications had no effect on previously reported net income or shareholders' equity.

Accounting Standards Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard became effective for annual and interim periods beginning after December 15, 2017. The Company adopted this standard as of January 1, 2018 using the modified retrospective approach. The Company evaluated each of its revenue streams under the new standard and concluded that the adoption of this standard did not impact the amount or timing of revenue recognition in the Company's consolidated financial statements. The Company also considered and determined that presenting revenue disaggregated by rooms, food and beverage, and other in its consolidated statements of operations and comprehensive income reflects the nature and timing of its significant revenue streams and has reclassified prior period amounts to conform to the current period presentation.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The standard was effective for annual and interim periods beginning after December 15, 2017. The Company adopted this standard as of January 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*, which is intended to reduce diversity in practice in the classification and presentation of changes in restricted cash in the statement of cash flows. The standard was effective for annual and interim periods beginning after December 15, 2017. Under this standard, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown in the statements of cash flows. The Company adopted this standard as of January 1, 2018. Amounts included in restricted cash on the Company's consolidated balance sheets are now included with cash and cash equivalents in the Company's consolidated statements of cash flows for all periods presented. The adoption of this standard required retrospective revision to the statement of cash flows for the six months ended June 30, 2017. Other than the reclassification of restricted cash balances and activity in the statements of cash flows, the adoption of the standard did not have an impact on the Company's consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope of Accounting Standards Codification ("ASC") Subtopic 610-20 and adds guidance for the derecognition of nonfinancial assets, including partial sales. The provisions of this standard must be applied at the same time as the adoption of ASU No. 2014-09. The Company adopted this standard as of January 1, 2018 using the modified retrospective approach. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*, which amends the hedge accounting model to enable entities to better portray their risk management activities in their financial statements and enhance the transparency and understandability of hedging activity. The standard simplifies the application of hedge accounting and reduces the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company adopted this standard on January 1, 2018 using the modified retrospective approach. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

Accounting Standards Recently Issued

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets as right-of-use assets and lease liabilities, as well as making targeted changes to lessor accounting. Leases will be 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 will be accounted for similar to the existing guidance today 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. 2018-10, *Codification Improvements to Topic 842, Leases,* which includes amendments that affect narrow aspects of the guidance issued in ASU No. 2016-02, and ASU No. 2018-11, *Leases (Topic 842) Targeted Improvements,* which gives entities another option for transition and provides lessors with a practical expedient. Under ASU No. 2018-11, entities are provided an additional (and optional) transition method to adopt Topic 842 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings for the effects of initially applying Topic 842 in the period of adoption. Consequently, an entity's reporting for comparative periods presented in the consolidated financial statements in which the entity adopts the new lease requirements would continue in accordance with current GAAP, *Leases (Topic 840)*, including disclosures. The standard is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. The Company expects to adopt this standard as of January 1, 2019. The Company is the lessee on certain ground leases and hotel equipment leases, which represents a majority of the Company's current operating lease payments, and expects to record right of use assets and lease liabilities for these leases under the new standard. The Company is also a lessor in certain retail lease agreements related to its real estate, however, it does not anticipate any material change to the accounting for these leasing arrangements. The Company is continuing to evaluate the impact this standard will have on its consolidated financial statements and related disclosures.

2. Investment in Real Estate

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

	June 30, 2018	December 31, 2017
Land	$ 736,137	$ 720,465
Building and Improvements	4,479,362	4,362,929
Furniture, Fixtures and Equipment	448,548	428,734
Franchise Fees	12,963	12,315
	5,677,010	5,524,443
Less Accumulated Depreciation	(818,794)	(731,284)
Investment in Real Estate, net	$ 4,858,216	$ 4,793,159

As of June 30, 2018, the Company owned 243 hotels with an aggregate of 30,929 rooms located in 34 states, including two hotels with an aggregate of 175 rooms classified as held for sale, which were sold to an unrelated party in July 2018.

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

Acquisitions

The Company acquired four hotels during the first six months of 2018. The following table sets forth the location, brand, manager, date acquired, number of rooms and gross purchase price for each hotel. All dollar amounts are in thousands.

City	State	Brand	Manager	Date Acquired	Rooms	Gross Purchase Price (1)
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
					605	$ 136,800

(1) The gross purchase price excludes transaction costs.

During the year ended December 31, 2017, the Company acquired six hotels including one in the first six months of 2017. The following table sets forth the location, brand, manager, date acquired, number of rooms and gross purchase price for each hotel. All dollar amounts are in thousands.

City	State	Brand	Manager	Date Acquired	Rooms	Gross Purchase Price (1)
Fort Worth	TX	Courtyard	LBA	2/2/2017	124	$ 18,034
Birmingham (2)	AL	Hilton Garden Inn	LBA	9/12/2017	104	19,162
Birmingham (2)	AL	Home2 Suites	LBA	9/12/2017	106	19,276
Portland	ME	Residence Inn	Pyramid	10/13/2017	179	55,750
Salt Lake City	UT	Residence Inn	Huntington	10/20/2017	136	25,500
Anchorage	AK	Home2 Suites	Stonebridge	12/1/2017	135	24,048
					784	$ 161,770

(1) The gross purchase price excludes transaction costs.
(2) The hotels in Birmingham, AL are part of an adjoining dual-branded complex located on the same site.

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 four hotels acquired during the six months ended June 30, 2018, the amount of revenue and operating income included in the Company's consolidated statement of operations from the date of acquisition through June 30, 2018 was approximately $7.1 million and $2.1 million, respectively. For the hotel acquired during the six months ended June 30, 2017, the amount of revenue and operating income included in the Company's consolidated statement of operations from the date of acquisition through June 30, 2017 was approximately $1.9 million and $0.4 million, respectively.

Hotel Contract Commitments

As of June 30, 2018, the Company had outstanding contracts for the potential purchase of five hotels for a total purchase price of approximately $130.8 million. All five hotels are under development and are planned to be completed and opened for business over the next nine to 30 months from June 30, 2018, 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 closing 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 June 30, 2018. All dollar amounts are in thousands.

Location (1)	Brands	Date of Purchase Contract	Rooms		Refundable Deposits		Gross Purchase Price
Orlando, FL	Home2 Suites	1/18/2017	128	$	3	$	20,736
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		360		63,341
			606	$	366	$	130,781

(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 nine to 30 months from June 30, 2018. 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 revolving credit facility to purchase the hotels under contract if a closing occurs.

Loss on Impairment of Depreciable Real Estate Assets

During the second quarter of 2018, the Company identified three properties for potential sale: the Columbus, Georgia SpringHill Suites and TownePlace Suites (the “two Columbus hotels”) and the Springdale, Arkansas Residence Inn. In May 2018, the Company entered into separate contracts with the same unrelated party for the sale of the two Columbus hotels. As further discussed in Note 3, the Company completed the sale of the two Columbus hotels in July 2018 and classified the hotels as assets held for sale as of June 30, 2018. As a result, the Company recognized an impairment loss of approximately $0.5 million in the second quarter of 2018, representing the difference between the carrying values of the two Columbus hotels and the contracted sales prices, net of estimated selling costs, which are Level 1 inputs under the fair value hierarchy. The Company has committed to sell the Springdale, Arkansas Residence Inn and has received offers from unrelated parties that it is pursuing. Due to the change in the anticipated hold period for this hotel, the Company reviewed the estimated undiscounted cash flows to be generated by the property and determined that the undiscounted cash flows were less than its carrying value; therefore the Company recognized an impairment loss of approximately $2.6 million in the second quarter of 2018 to adjust the basis of this property to its estimated fair value, which was based on the offers received, net of estimated selling costs, which is a Level 2 input under the fair value hierarchy.

The two Columbus hotels were previously identified for potential sale during the first quarter of 2017, at which time the Company recognized an impairment loss of approximately $7.9 million to adjust the bases of these properties to their estimated fair values, which were based on the then contracted sales prices, which were terminated in May 2017, net of estimated selling costs, a Level 1 input under the fair value hierarchy.

3. Assets Held for Sale and Dispositions

Assets Held for Sale

In May 2018, the Company entered into separate purchase and sale agreements with the same unrelated party for the sale of its 89-room SpringHill Suites and its 86-room TownePlace Suites hotels in Columbus, Georgia for a total combined gross sales price of $10.0 million. Since the buyer under the contracts had completed its due diligence and had made a non-refundable deposit, as of June 30, 2018, the Company classified the two Columbus hotels as held for sale at their estimated fair values which, as discussed in Note 2, were based on the contracted sales prices, net of estimated selling costs, resulting in an impairment loss during the second quarter of 2018. On July 13, 2018, the Company completed the sale of the hotels.

2017 Dispositions

In December 2016, the Company entered into a purchase and sale agreement with an unrelated party for the sale of its 224-room Hilton hotel in Dallas, Texas for a gross sales price of approximately $56.1 million, as amended. On April 20, 2017, the Company completed the sale resulting in a gain of approximately $16.1 million, which is included in the Company's consolidated statements of operations for the three and six months ended June 30, 2017. The hotel had a carrying value totaling approximately $39.0 million at the date of sale. Under the contract, at closing, the mortgage loan secured by the Dallas, Texas Hilton hotel was assumed by the buyer with the buyer receiving a credit for the amount assumed, which was approximately $27.1 million at the date of sale.

The Company's consolidated statements of operations include operating income (loss) of approximately $(0.4) million and $0.3 million for the three months ended June 30, 2018 and 2017, respectively, and approximately $(0.4) million and $(6.5) million for the six months ended June 30, 2018 and 2017, respectively, relating to the results of operations of the three hotels noted above (the two Columbus hotels classified as held for sale as of June 30, 2018 and sold in July 2018, and the Dallas, Texas Hilton sold in April 2017). 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 and six months ended June 30, 2018 and 2017. The net proceeds from the sales were used to pay down borrowings on the Company's revolving credit facility.

4. Debt

$965 Million Credit Facility

Prior to the Company's debt refinancing in July 2018 as discussed below, the Company utilized an unsecured "$965 million credit facility" comprised of (i) a $540 million revolving credit facility with an initial maturity date of May 18, 2019 and (ii) a $425 million term loan facility with a maturity date of May 18, 2020, consisting of three term loans, all funded during 2015 (the "$425 million term loans"). Interest payments on the $965 million credit facility were due monthly and the interest rate, subject to certain exceptions, was equal to an annual rate of the one-month LIBOR (the London Inter-Bank Offered Rate for a one-month term) plus a margin ranging from 1.50% to 2.30%, depending upon the Company's leverage ratio, as calculated under the terms of the credit agreement. The Company was also required to pay quarterly an unused facility fee at an annual rate of 0.20% or 0.30% on the unused portion of the revolving credit facility, based on the amount of borrowings outstanding during the quarter.

$150 Million Term Loan Facility

Prior to the Company's debt refinancing in August 2018 as discussed below, the Company utilized an unsecured $150 million term loan facility (the "$150 million term loan facility"), consisting of a $50 million term loan with a maturity date of April 8, 2021 (the "$50 million term loan") and a $100 million term loan with a maturity date of April 8, 2023 (the "$100 million term loan," and collectively with the $50 million term loan, the "$150 million term loans"). The credit agreement contained requirements and covenants similar to the Company's $965 million credit facility. Interest payments on the $150 million term loan facility were due monthly and the interest rate was equal to an annual rate of the one-month LIBOR plus a margin ranging from 1.45% to 2.20% for the $50 million term loan and 1.80% to 2.60% for the $100 million term loan, 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 $425 million term loans and the $150 million term loans, the "term loans"). The credit agreement contains requirements and covenants similar to the Company's $965 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. In conjunction with the Company's debt refinancing discussed below, the requirements and covenants under the $85 million term loan agreement were amended to be similar to the refinanced facilities' credit agreements.

As of June 30, 2018 and December 31, 2017, the details of the Company's revolving credit facility and term loans were as set forth below. All dollar amounts are in thousands.

		As of June 30, 2018		As of December 31, 2017	
	Maturity Date	Outstanding Balance	Interest Rate	Outstanding Balance	Interest Rate
Revolving credit facility (1)	5/18/2019	$ 218,400	3.64% (2)	$ 106,900	3.11% (2)
Term loans					
$425 million term loans	5/18/2020	425,000	3.21% (3)	425,000	3.09% (3)
$50 million term loan	4/8/2021	50,000	2.54% (4)	50,000	2.54% (4)
$100 million term loan	4/8/2023	100,000	3.13% (4)	100,000	3.13% (4)
$85 million term loan	7/25/2024	85,000	3.76% (4)	85,000	3.76% (4)
Total term loans at stated value		660,000		660,000	
Unamortized debt issuance costs		(3,140)		(3,721)	
Total term loans		656,860		656,279	
Total revolving credit facility and term loans		$ 875,260		$ 763,179	

(1) Unamortized debt issuance costs related to the revolving credit facility totaled approximately $1.1 million and $1.7 million as of June 30, 2018 and December 31, 2017, respectively, and are included in other assets, net in the Company's consolidated balance sheets.
(2) Annual variable interest rate at the balance sheet date.
(3) Effective annual interest rate at the balance sheet date which includes the effect of interest rate swaps on $322.5 million of the outstanding loan balance, resulting in an annual fixed interest rate of approximately 3.10% on this portion of the debt, subject to adjustment based on the Company's leverage ratio. See Note 5 for more information on the interest rate swap agreements. Remaining portion is variable rate debt.
(4) Annual fixed interest rate at the balance sheet date which includes the effect of interest rate swaps on the outstanding loan balance, subject to adjustment based on the Company's leverage ratio. See Note 5 for more information on the interest rate swap agreements.

At June 30, 2018, the credit agreements governing the $965 million credit facility, the $150 million term loan facility and the $85 million term loan contained mandatory prepayment requirements, customary affirmative covenants, negative covenants and events of default. The credit agreements required 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 June 30, 2018.

2018 Debt Refinancing

On July 27, 2018, the Company entered into an amendment and restatement of its $965 million credit facility, reducing the borrowing capacity to $850 million 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. At closing, the Company repaid the outstanding $425 million term loans under the $965 million credit facility with the proceeds from the $425 million term loan facility and borrowed approximately $196 million under the $425 million revolving credit facility to repay the outstanding balance on its $540 million 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 credit agreement for the $850 million credit facility contains requirements and covenants similar to the previous credit agreement for the $965 million credit facility. 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.

Also, on August 2, 2018, the Company entered into an amendment and restatement of its $150 million term loan facility, increasing the borrowing capacity to $225 million 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 may be drawn by the Company no later than January 31, 2019. At closing, the Company repaid the $150 million term loans under the $150 million term loan facility. The credit agreement contains requirements and covenants similar to the $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.

A summary of the 2018 debt refinancing is set forth below. All dollar amounts are in thousands.

	2018 Refinancing			Prior to Refinancing		
	Capacity	Maturity Date	Interest Rate	Capacity	Maturity Date	Interest Rate
Revolving credit facility	$ 425,000	7/27/2022	LIBOR + 1.40% - 2.25%	$ 540,000	5/18/2019	LIBOR + 1.55% - 2.30%
Term loan	200,000	7/27/2023	LIBOR + 1.35% - 2.20%	425,000	5/18/2020	LIBOR + 1.50% - 2.25%
Term loan	225,000	1/31/2024	LIBOR + 1.35% - 2.20%			
Facility total	850,000			965,000		
Term loan	50,000	8/2/2023	LIBOR + 1.35% - 2.20%	50,000	4/8/2021	LIBOR + 1.45% - 2.20%
Term loan	175,000	8/2/2025	LIBOR + 1.65% - 2.50%	100,000	4/8/2023	LIBOR + 1.80% - 2.60%
Facility total	225,000			150,000		
Total	$ 1,075,000			$ 1,115,000		

Mortgage Debt

As of June 30, 2018, the Company had approximately $495.4 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 June 30, 2018 and December 31, 2017 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 June 30, 2018	Outstanding balance as of December 31, 2017
San Juan Capistrano, CA	Residence Inn	4.15%	9/1/2016	6/1/2020	$ 16,210	$ 15,604	$ 15,774
Colorado Springs, CO	Hampton	6.25%	9/1/2016	7/6/2021	7,923	7,686	7,754
Franklin, TN	Courtyard	6.25%	9/1/2016	8/6/2021	14,679	14,242	14,368
Franklin, TN	Residence Inn	6.25%	9/1/2016	8/6/2021	14,679	14,242	14,368
Grapevine, TX	Hilton Garden Inn	4.89%	8/29/2012	9/1/2022	11,810	10,258	10,412
Collegeville/Philadelphia, PA	Courtyard	4.89%	8/30/2012	9/1/2022	12,650	10,987	11,152
Hattiesburg, MS	Courtyard	5.00%	3/1/2014	9/1/2022	5,732	5,136	5,212
Rancho Bernardo/San Diego, CA	Courtyard	5.00%	3/1/2014	9/1/2022	15,060	13,492	13,692
Kirkland, WA	Courtyard	5.00%	3/1/2014	9/1/2022	12,145	10,881	11,042
Seattle, WA	Residence Inn	4.96%	3/1/2014	9/1/2022	28,269	25,310	25,687
Anchorage, AK	Embassy Suites	4.97%	9/13/2012	10/1/2022	23,230	20,261	20,560
Somerset, NJ	Courtyard	4.73%	3/1/2014	10/6/2022	8,750	7,813	7,932
Tukwila, WA	Homewood Suites	4.73%	3/1/2014	10/6/2022	9,431	8,421	8,549
Prattville, AL	Courtyard	4.12%	3/1/2014	2/6/2023	6,596	5,849	5,943
Huntsville, AL	Homewood Suites	4.12%	3/1/2014	2/6/2023	8,306	7,365	7,483
San Diego, CA	Residence Inn	3.97%	3/1/2014	3/6/2023	18,600	16,467	16,733
Miami, FL	Homewood Suites	4.02%	3/1/2014	4/1/2023	16,677	14,786	15,022
Syracuse, NY	Courtyard	4.75%	10/16/2015	8/1/2024 (2)	11,199	10,498	10,637
Syracuse, NY	Residence Inn	4.75%	10/16/2015	8/1/2024 (2)	11,199	10,498	10,637
New Orleans, LA	Homewood Suites	4.36%	7/17/2014	8/11/2024	27,000	24,578	24,919
Westford, MA	Residence Inn	4.28%	3/18/2015	4/11/2025	10,000	9,263	9,386
Denver, CO	Hilton Garden Inn	4.46%	9/1/2016	6/11/2025	34,118	32,625	33,046
Oceanside, CA	Courtyard	4.28%	9/1/2016	10/1/2025	13,655	13,206	13,332
Omaha, NE	Hilton Garden Inn	4.28%	9/1/2016	10/1/2025	22,682	21,935	22,145
Boise, ID	Hampton	4.37%	5/26/2016	6/11/2026	24,000	23,220	23,422
Burbank, CA	Courtyard	3.55%	11/3/2016	12/1/2026	25,564	24,585	24,917
San Diego, CA	Courtyard	3.55%	11/3/2016	12/1/2026	25,473	24,497	24,828
San Diego, CA	Hampton	3.55%	11/3/2016	12/1/2026	18,963	18,237	18,483
Burbank, CA	SpringHill Suites	3.94%	3/9/2018	4/1/2028	28,470	28,358	-
Santa Ana, CA	Courtyard	3.94%	3/9/2018	4/1/2028	15,530	15,469	-
San Jose, CA	Homewood Suites	4.22%	12/22/2017	1/1/2038	30,000	29,598	30,000
					$ 528,600	495,367	457,435
Unamortized fair value adjustment of assumed debt						3,879	4,330
Unamortized debt issuance costs						(2,330)	(2,748)
Total						$ 496,916	$ 459,017

(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.

The aggregate amounts of principal payable under the Company's total debt obligations as of June 30, 2018 (including mortgage debt, the revolving credit facility and term loans), for the five years subsequent to June 30, 2018 and thereafter are as follows (in thousands):

2018 (July - December)	$	6,595
2019		252,205
2020		453,349
2021		97,586
2022		109,252
Thereafter		454,780
		1,373,767
Unamortized fair value adjustment of assumed debt		3,879
Unamortized debt issuance costs related to term loans and mortgage debt		(5,470)
Total	$	1,372,176

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 June 30, 2018, both the carrying value and estimated fair value of the Company's debt were approximately $1.4 billion. As of December 31, 2017, both the carrying value and estimated fair value of the Company's debt were approximately $1.2 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 June 30, 2018 and December 31, 2017. All dollar amounts are in thousands.

					Fair Value Asset (Liability)	
Hedge Type	**Notional Amount at June 30, 2018**	**Origination Date**	**Maturity Date**	**Swap Fixed Interest Rate**	**June 30, 2018**	**December 31, 2017**
Cash flow hedge	$ 212,500	5/21/2015	5/18/2020	1.58%	$ 3,915	$ 2,033
Cash flow hedge	110,000	7/2/2015	5/18/2020	1.62%	1,946	951
Cash flow hedge	50,000	4/7/2016	3/31/2021	1.09%	2,119	1,544
Cash flow hedge	100,000	4/7/2016	3/31/2023	1.33%	6,352	4,098
Cash flow hedge	75,000	5/31/2017	6/30/2024	1.96%	3,308	1,043
Cash flow hedge	10,000	8/10/2017	6/30/2024	2.01%	415	109
Cash flow hedge (1)	50,000	6/1/2018	6/30/2025	2.89%	(245)	-
	$ 607,500				$ 17,810	$ 9,778

(1) In June 2018 the Company entered into a forward interest rate swap agreement with a commercial bank, which beginning January 31, 2019 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 Company elected to early adopt ASU No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities,* on January 1, 2018, using the modified retrospective approach for all of its hedging relationships that existed as of that date. As a result, effective January 1, 2018, the entire 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. Prior to January 1, 2018, changes in fair value on the effective portion of all designated cash flow hedges were recorded to accumulated other comprehensive income, while changes in fair value on the ineffective portion of all designated cash flow hedges were recorded to interest and other expense, net in the Company's consolidated statements of operations. Since prior to January 1, 2018 there was no material ineffectiveness related to the Company's outstanding designated cash flow hedges, the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

The following tables present the effect of derivative instruments in cash flow hedging relationships in the Company's consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Net Unrealized Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Net Unrealized Gain (Loss) Reclassified from Accumulated Other Comprehensive Income to Interest and Other Expense, net	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Interest rate derivatives in cash flow hedging relationships	$ 2,252	$ (1,733)	$ 512	$ (558)

	Net Unrealized Gain (Loss) Recognized in Other Comprehensive Income (Loss)		Net Unrealized Gain (Loss) Reclassified from Accumulated Other Comprehensive Income to Interest and Other Expense, net	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest rate derivatives in cash flow hedging relationships	$ 8,600	$ (1,010)	$ 568	$ (1,380)

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 $4.5 million of net unrealized gains included in accumulated other comprehensive income at June 30, 2018 will be reclassified as a decrease to interest and other expense, net within the next 12 months.

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 2017 Form 10-K. Below is a summary of the significant related party relationships in effect during the six months ended June 30, 2018 and 2017.

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 six months ended June 30, 2018 and 2017 totaled approximately $0.5 million and $0.3 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 June 30, 2018 and December 31, 2017, total amounts due from ARG for reimbursements under the cost sharing structure each totaled approximately $0.3 million, 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. Leasing activity to affiliates 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 six months ended June 30, 2018 and 2017 were approximately $0.05 million and $0.1 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 June 30, 2018 and 2017, the Company paid distributions of $0.30 per common share for a total of $69.1 million and $66.9 million, respectively. For the six months ended June 30, 2018 and 2017, the Company paid distributions of $0.60 per common share for a total of $138.2 million and $133.8 million, respectively. Additionally, in June 2018, the Company declared a monthly distribution of $0.10 per common share, totaling $23.0 million, which was recorded as a payable as of June 30, 2018 and paid in July 2018. As of December 31, 2017, a monthly distribution of $0.10 per common share, totaling $23.0 million, was recorded as a payable and paid in January 2018. These accrued distributions were included in accounts payable and other liabilities in the Company's consolidated balance sheets.

Issuance of Shares

In February 2017, the Company executed an equity distribution agreement that allows the Company to sell, from time to time, up to an aggregate of $300 million of its common shares through sales agents under an at-the-market offering program (the "ATM Program"). Since inception of the ATM Program in February 2017 through June 30, 2018, the Company has sold approximately 7.2 million common shares at a weighted-average market sales price of approximately $19.56 per common share and received aggregate gross proceeds of approximately $139.8 million before commission and issuance costs, including the sale of approximately 0.2 million common shares during the six months ended June 30, 2018 at a weighted-average market sales price of approximately $19.73 per common share and receipt of aggregate gross proceeds of approximately $4.8 million. The Company used the proceeds from the sale of these shares to pay down borrowings on its revolving credit facility. No shares were issued under the ATM Program during the six months ended June 30, 2017. As of June 30, 2018, approximately $160.2 million remained available for issuance under the ATM Program.

Share Repurchases

In May 2018, the Board of Directors approved an extension of the Company's 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 first six months of 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 of approximately $4.3 million. The Company did not purchase any common shares under its Share Repurchase Program during the first six months of 2017. Repurchases under the Share Repurchase Program have been funded, and the Company intends to fund future repurchases, with availability under its revolving credit facility.

8. Compensation Plans

The Company annually establishes an incentive plan for its executive management. Under the incentive plan for 2018 (the "2018 Incentive Plan"), participants are eligible to receive a bonus based on the achievement of certain 2018 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 components of the operational performance metrics and shareholder return metrics are equally weighted and the two metrics each account for 50% of the total target incentive compensation. The range of potential aggregate payouts under the 2018 Incentive Plan is $0 - $20 million. Based on performance through June 30, 2018, the Company has accrued approximately $3.7 million as a liability for potential executive bonus payments under the 2018 Incentive Plan, which is included in accounts payable and other liabilities in the Company's consolidated balance sheet as of June 30, 2018. Compensation expense recognized by the Company under the 2018 Incentive Plan is included in general and administrative expense in the Company's consolidated statements of operations and totaled approximately $1.8 million and $3.7 million for the three and six months ended June 30, 2018, respectively. Approximately 25% of awards under the 2018 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 2018 and one-third of which will vest in December 2019. Under the incentive plan for 2017 (the "2017 Incentive Plan"), the Company recorded approximately $1.4 million and $3.5 million in general and administrative expenses in the Company's consolidated statements of operations for the three and six months ended June 30, 2017, respectively.

Share Based Compensation Awards

During the first quarters of 2018 and 2017, the Company issued 367,333 and 101,305 common shares earned under the 2017 Incentive Plan and the incentive plan for 2016 (the "2016 Incentive Plan") (net of 48,533 and 19,667 common shares surrendered to satisfy tax withholding obligations) at $16.92 and $19.10 per share, or approximately $7.0 million and $2.3 million in share based compensation, including the surrendered shares, respectively. Of the total shares issued under the 2017 Incentive Plan, 223,421 shares were unrestricted at the time of issuance, and the remaining 143,912 restricted shares will vest on December 14, 2018. Of the total shares issued under the 2016 Incentive Plan, 60,028 shares were unrestricted at the time of issuance, and the remaining 41,277 restricted shares vested on December 15, 2017, of which 13,129 common shares were surrendered to satisfy tax withholding obligations. Of the total 2017 share based compensation, approximately $5.8 million was recorded as a liability as of December 31, 2017, which was included in accounts payable and other liabilities in the Company's consolidated balance sheet and the remaining $1.2 million, which is subject to vesting on December 14, 2018, will be recognized as compensation expense proportionately throughout 2018. Of the total 2016 share based compensation, approximately $0.4 million, which vested on December 15, 2017, was recognized as compensation expense proportionately throughout 2017. For the three months ended June 30, 2018 and 2017, the Company recognized approximately $0.3 million and $0.1 million, respectively, and for the six months ended June 30, 2018 and 2017, the Company recognized approximately $0.6 million and $0.2 million, respectively, of share based compensation expense related to the unvested restricted share awards.

9. Subsequent Events

In July 2018, the Company paid approximately $23.0 million, or $0.10 per outstanding common share, in distributions to its common shareholders.

In July 2018, the Company declared a regular monthly cash distribution of $0.10 per common share for the month of August 2018. The distribution is payable on August 15, 2018.

On July 13, 2018, the Company completed the sale of its two Columbus hotels for a total combined gross sales price of $10.0 million. The Company used the net proceeds from the sale to pay down borrowings on its revolving credit facility. See Note 3 for additional information.

In July and August 2018, the Company refinanced its $965 million credit facility and its $150 million term loan facility. See Note 4 for additional information on the Company's debt refinancing.

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 2017 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 2017 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 United States. As of June 30, 2018, the Company owned 243 hotels with an aggregate of 30,929 rooms located in urban, high-end suburban and developing markets throughout 34 states, including two hotels with an aggregate of 175 rooms classified as held for sale, which were sold to an unrelated party in July 2018. All of the Company's hotels operate under Marriott or Hilton 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."

2018 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 select-service hotels, the Company acquired four hotels for an aggregate purchase price of approximately $136.8 million during the first six months of 2018: a 119-room Hampton Inn & Suites in downtown Atlanta, Georgia; a 144-room Hampton Inn & Suites in Memphis, Tennessee; a 210-room Hampton Inn & Suites in downtown Phoenix, Arizona; and a 132-room Hampton Inn & Suites in Atlanta Perimeter Dunwoody, Georgia. The Company also had outstanding contracts for the potential purchase of five hotels that are under development for a total purchase price of approximately $130.8 million, which are planned to be completed and opened for business over the next nine to 30 months from June 30, 2018, 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 the revolving credit facility 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 by the proceeds from the sale of the property. Accordingly, during the second quarter of 2018, the Company identified three properties for potential sale: the two Columbus hotels and the Springdale, Arkansas Residence Inn. In May 2018, the Company entered into separate contracts with the same unrelated party for the sale of the two Columbus hotels and, as a result, recognized an impairment loss of approximately $0.5 million in the second quarter of 2018. In July 2018, the Company completed the sale of its two Columbus hotels, which were classified as held for sale as of June 30, 2018, for a total combined gross sales price of $10.0 million. The net proceeds from the sales of these hotels were used to pay down borrowings on the Company's revolving credit facility. Additionally, the Company has committed to sell the Springdale, Arkansas Residence Inn and has received offers from unrelated parties that it is pursuing and, as a result, recognized an impairment loss of approximately $2.6 million in the second quarter of 2018 on this hotel.

See Note 2 titled "Investment in Real Estate" and Note 3 titled "Assets Held for Sale and 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 United States 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, the lodging industry and the Company have experienced modest revenue growth. Moderate improvements in the general U.S. economy have been partially offset by increased supply in many markets. With modest revenue growth, the Company has produced stable operating results during the first six months of 2018 on a comparable basis (as defined below) with expense increases generally offsetting revenue growth. 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 and government fiscal policies. The Company, on a comparable basis, and industry are forecasting a low single digit percentage increase in revenue for the full year of 2018 as compared to 2017. The anticipated low growth is primarily due to inconsistent demand in certain markets and increased hotel supply meeting demand growth in others, limiting the Company's ability to increase rates.

As of June 30, 2018, the Company owned 243 hotels with a total of 30,929 rooms as compared to 235 hotels with a total of 29,978 rooms as of June 30, 2017, however, 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 six months ended June 30, 2018, the Company acquired one newly constructed hotel on May 2, 2018 and three existing hotels (two on February 5, 2018 and one on June 28, 2018). During 2017, the Company acquired three newly constructed hotels (one on February 2, 2017 and two on September 12, 2017) and three existing hotels (one on October 13, 2017, one on October 20, 2017 and one on December 1, 2017), and sold two hotels (one on April 20, 2017 and one on October 5, 2017). As a result, the comparability of results for the three and six months ended June 30, 2018 and 2017 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 revenue per available room ("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 June 30, 2018	Percent of Revenue	2017	Percent of Revenue	Percent Change	Six Months Ended June 30, 2018	Percent of Revenue	2017	Percent of Revenue	Percent Change
Total revenue	$344,714	100.0%	$331,704	100.0%	3.9%	$ 643,103	100.0%	$ 624,629	100.0%	3.0%
Hotel operating expense	186,531	54.1%	180,012	54.3%	3.6%	358,860	55.8%	348,466	55.8%	3.0%
Property taxes, insurance and other expense	18,681	5.4%	17,821	5.4%	4.8%	35,910	5.6%	34,748	5.6%	3.3%
Ground lease expense	2,912	0.8%	2,839	0.9%	2.6%	5,762	0.9%	5,655	0.9%	1.9%
General and administrative expense	6,721	1.9%	6,151	1.9%	9.3%	13,598	2.1%	12,905	2.1%	5.4%
Transaction and litigation costs (reimbursements)	-		(2,586)		n/a	-		(2,586)		n/a
Loss on impairment of depreciable real estate assets	3,135		-		n/a	3,135		7,875		n/a
Depreciation expense	45,743		43,893		4.2%	90,583		87,660		3.3%
Interest and other expense, net	13,210		11,849		11.5%	25,129		23,566		6.6%
Gain on sale of real estate	-		16,140		n/a	-		16,140		n/a
Income tax expense	151		259		-41.7%	314		509		-38.3%
Number of hotels owned at end of period	243		235		3.4%	243		235		3.4%
ADR	$ 139.58		$ 137.56		1.5%	$ 137.09		$ 135.58		1.1%
Occupancy	81.7%		81.5%		0.2%	78.2%		78.0%		0.3%
RevPAR	$ 114.09		$ 112.10		1.8%	$ 107.20		$ 105.70		1.4%

Comparable Hotels Operating Results

The following table reflects certain operating statistics for the Company's 241 hotels owned and held for use as of June 30, 2018 ("Comparable Hotels"). The Company defines metrics from Comparable Hotels as results generated by the 241 hotels owned and held for use as of the end of the reporting period. These metrics do not include the results generated by the two Columbus hotels, which were held for sale as of June 30, 2018 and sold on July 13, 2018. 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 and assets held for sale, results have been excluded for the Company's period of ownership.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Percent Change	2018	2017	Percent Change
ADR	$ 139.83	$ 138.22	1.2%	$ 137.39	$ 135.95	1.1%
Occupancy	81.8%	81.7%	0.1%	78.3%	78.2%	0.1%
RevPAR	$ 114.38	$ 112.88	1.3%	$ 107.52	$ 106.31	1.1%

Same Store Operating Results

The following table reflects certain operating statistics for the Company's 231 hotels owned and held for use by the Company as of January 1, 2017 and during the entirety of the reporting periods being compared ("Same Store Hotels"). This information has not been audited.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Percent Change	2018	2017	Percent Change
ADR	$ 139.28	$ 137.60	1.2%	$ 137.01	$ 135.50	1.1%
Occupancy	82.1%	81.8%	0.4%	78.5%	78.3%	0.3%
RevPAR	$ 114.29	$ 112.53	1.6%	$ 107.51	$ 106.10	1.3%

As discussed above, hotel performance is impacted by many factors, including the economic conditions in the United States as well as each individual locality. Economic indicators in the United States have generally been favorable, which has been partially offset by increased 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 experienced modest growth during the first half of 2018 as compared to 2017. Due to the increase in revenue and operating income in the second half of 2017 related to the increase in demand from restoration and recovery efforts in Houston and Florida resulting from hurricanes Harvey and Irma, the Company expects flat to modest improvement in both revenue and operating results for its Comparable Hotels for the second half of 2018 as compared to the same period in 2017. The Company's hotels in general have shown results consistent with industry and brand averages for the period of ownership.

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 June 30, 2018 and 2017, the Company had total revenue of $344.7 million and $331.7 million, respectively. For the six months ended June 30, 2018 and 2017, the Company had total revenue of $643.1 million and $624.6 million, respectively. For the three months ended June 30, 2018 and 2017, respectively, Comparable Hotels achieved combined average occupancy of 81.8% and 81.7%, ADR of $139.83 and $138.22 and RevPAR of $114.38 and $112.88. For the six months ended June 30, 2018 and 2017, respectively, Comparable Hotels achieved combined average occupancy of 78.3% and 78.2%, ADR of $137.39 and $135.95 and RevPAR of $107.52 and $106.31. 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 periods in 2017, during the second quarter and first half of 2018, the Company experienced a modest increase in ADR and stable occupancy, resulting in a 1.3% and 1.1% increase in RevPAR for Comparable Hotels, respectively. Markets/areas with above average growth in the second quarter and first half of 2018 for the Company and industry included Fort Worth, Texas, Knoxville, Tennessee, Tucson, Arizona, Southeastern Texas and South Florida. Markets that were below average for the Company and industry included Boston, Massachusetts, Denver, Colorado, Kansas City, Missouri, St. Louis, Missouri and Seattle, Washington.

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 June 30, 2018 and 2017, respectively, hotel operating expense totaled $186.5 million and $180.0 million or 54.1% and 54.3% of total revenue for each respective period. For the six months ended June 30, 2018 and 2017, respectively, hotel operating expense totaled $358.9 million and $348.5 million or 55.8% of total revenue for each respective period. For the Company's Comparable Hotels, hotel operating expense as a percentage of revenue increased approximately 10 and 30 basis points, respectively, for the three and six months ended June 30, 2018 as compared to the same periods in 2017. Increases in labor costs as a percentage of revenue during the first half of 2018 as compared to the same period in 2017 were the primary cause of the increased Comparable Hotels operating expense. 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. Although operating expenses will increase as revenue increases, 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 June 30, 2018 and 2017 totaled $18.7 million and $17.8 million, respectively, or 5.4% of total revenue for each respective period, and for Comparable Hotels, 5.4% and 5.3% of total revenue for each respective period. For the six months ended June 30, 2018 and 2017, property taxes, insurance, and other expense totaled $35.9 million and $34.7 million, respectively, or 5.6% of total revenue for each respective period, and for Comparable Hotels, 5.6% and 5.5% of total revenue for each respective period. For the Company's Comparable Hotels, real estate taxes increased slightly during the first half of 2018 compared to the first half of 2017, 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 2018. The Company will continue to appeal tax assessments in certain jurisdictions to attempt to minimize tax increases as warranted. Additionally, due to increased losses in 2017 for property insurance carriers, the Company's property insurance costs have increased slightly as a percentage of revenue for the first six months of 2018 as compared to the first six months of 2017 and are anticipated to increase for the remainder of 2018.

Ground Lease Expense

Ground lease expense for the three months ended June 30, 2018 and 2017 was $2.9 million and $2.8 million, respectively. For the six months ended June 30, 2018 and 2017, ground lease expense was $5.8 million and $5.7 million, respectively. Ground lease expense primarily represents the expense incurred by the Company to lease land for 14 of its hotel properties.

General and Administrative Expense

General and administrative expense for the three months ended June 30, 2018 and 2017 was $6.7 million and $6.2 million, respectively, or 1.9% of total revenue for each respective period. For the six months ended June 30, 2018 and 2017, general and administrative expense was $13.6 million and $12.9 million, respectively, or 2.1% 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.

Transaction and Litigation Costs (Reimbursements)

During the three and six months ended June 30, 2017, transaction and litigation costs (reimbursements) each totaled $(2.6) million which primarily related to additional proceeds received from the Company's directors and officers insurance carriers in connection with a legal settlement that occurred in 2017 related to the Company's merger with Apple REIT Ten, Inc. in 2016.

Loss on Impairment of Depreciable Real Estate Assets

Loss on impairment of depreciable real estate assets was $3.1 million for both the three and six months ended June 30, 2018, and $7.9 million for the six months ended June 30, 2017, which consisted of impairment charges for the two Columbus hotels (in 2018 and 2017) and the Springdale, Arkansas Residence Inn (in 2018). See Note 2 titled "Investment in Real Estate" 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 impairment losses.

Depreciation Expense

Depreciation expense for the three months ended June 30, 2018 and 2017 was $45.7 million and $43.9 million, respectively. For the six months ended June 30, 2018 and 2017, depreciation expense was $90.6 million and $87.7 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 four hotels in the first half of 2018 and six hotels in 2017 and renovations completed throughout 2018 and 2017.

Interest and Other Expense, net

Interest and other expense, net for the three months ended June 30, 2018 and 2017 was $13.2 million and $11.8 million, respectively. For the six months ended June 30, 2018 and 2017, interest and other expense, net was $25.1 million and $23.6 million, respectively, and is net of $0.5 million and $0.6 million of interest capitalized associated with renovation projects, for each respective period. Although average outstanding debt was slightly less in the first half of 2018 as compared to the first half of 2017, interest expense increased as a result of an increase in the Company's effective interest rate during the first half of 2018 as compared to 2017, due to (a) the issuance of longer term fixed-rate debt subsequent to June 30, 2017, which was used to reduce the Company's revolving credit facility, resulting in a higher average interest rate than the variable-rate borrowings repaid, and (b) an increase in interest rates on the Company's variable-rate debt, with the one-month LIBOR increasing from 1.22% at June 30, 2017 to 2.09% at June 30, 2018. While approximately 77% of the Company's outstanding debt was effectively fixed rate at June 30, 2018, the Company does expect interest costs to continue to increase for the remainder of 2018 due to expected increased borrowings and increased rates for its remaining variable rate debt. However, the impact from higher interest rates and increased borrowings 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. 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 additional information concerning the Company's debt refinancing.

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"), and Adjusted EBITDA ("Adjusted EBITDA"). 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 and Adjusted EBITDA 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 and Adjusted EBITDA, as calculated by the Company, may not be comparable to FFO, MFFO, EBITDA and Adjusted EBITDA 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 or losses from sales of real estate, 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 partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most 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 certain additional items including (i) the exclusion of transaction and litigation costs (reimbursements), as these costs do not represent ongoing operations, and (ii) the exclusion of non-cash straight-line ground lease expense, as this expense does 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 and six months ended June 30, 2018 and 2017 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 67,630	$ 87,606	$ 109,812	$ 121,971
Depreciation of real estate owned	45,502	43,664	90,112	87,201
Gain on sale of real estate	-	(16,140)	-	(16,140)
Loss on impairment of depreciable real estate assets	3,135	-	3,135	7,875
Amortization of favorable and unfavorable leases, net	148	168	354	333
Funds from operations	116,415	115,298	203,413	201,240
Transaction and litigation costs (reimbursements)	-	(2,586)	-	(2,586)
Non-cash straight-line ground lease expense	898	938	1,802	1,877
Modified funds from operations	$ 117,313	$ 113,650	$ 205,215	$ 200,531

EBITDA and Adjusted EBITDA

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.

The Company considers the exclusion of certain additional items from EBITDA useful, including (i) the exclusion of transaction and litigation costs (reimbursements), gains or losses from sales of real estate, and the loss on impairment of depreciable real estate assets, as these items do not represent ongoing operations, and (ii) the exclusion of non-cash straight-line ground lease expense, 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 and Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 67,630	$ 87,606	$ 109,812	$ 121,971
Depreciation	45,743	43,893	90,583	87,660
Amortization of favorable and unfavorable leases, net	148	168	354	333
Interest and other expense, net	13,210	11,849	25,129	23,566
Income tax expense	151	259	314	509
EBITDA	126,882	143,775	226,192	234,039
Transaction and litigation costs (reimbursements)	-	(2,586)	-	(2,586)
Gain on sale of real estate	-	(16,140)	-	(16,140)
Loss on impairment of depreciable real estate assets	3,135	-	3,135	7,875
Non-cash straight-line ground lease expense	898	938	1,802	1,877
Adjusted EBITDA	$ 130,915	$ 125,987	$ 231,129	$ 225,065

Hotels Owned

As of June 30, 2018, the Company owned 243 hotels with an aggregate of 30,929 rooms located in 34 states, including two hotels with an aggregate of 175 rooms classified as held for sale, which were sold to an unrelated party in July 2018. The following tables summarize the number of hotels and rooms by brand and by state:

Number of Hotels and Guest Rooms by Brand

Brand	Number of Hotels	Number of Rooms
Hilton Garden Inn	42	5,807
Courtyard	40	5,460
Hampton	40	5,029
Residence Inn	34	4,011
Homewood Suites	34	3,831
SpringHill Suites	17	2,248
TownePlace Suites	12	1,196
Fairfield Inn	11	1,300
Home2 Suites	8	910
Marriott	2	616
Embassy Suites	2	316
Renaissance	1	205
Total	243	30,929

Number of Hotels and Guest Rooms by State

State	Number of Hotels	Number of Rooms
Alabama	15	1,434
Alaska	2	304
Arizona	12	1,644
Arkansas	4	408
California	27	3,807
Colorado	4	567
Florida	23	2,851
Georgia	8	847
Idaho	2	416
Illinois	8	1,420
Indiana	4	479
Iowa	3	301
Kansas	4	422
Louisiana	4	541
Maine	1	179
Maryland	2	233
Massachusetts	4	466
Michigan	1	148
Minnesota	2	244
Mississippi	2	168
Missouri	4	544
Nebraska	4	621
New Jersey	5	629
New York	4	550
North Carolina	12	1,337
Ohio	2	252
Oklahoma	4	545
Pennsylvania	3	391
South Carolina	5	538
Tennessee	13	1,502
Texas	34	4,072
Utah	3	393
Virginia	14	2,067
Washington	4	609
Total	243	30,929

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The following table summarizes the location, brand, manager, date acquired or completed and number of rooms for each of the 243 hotels the Company owned as of June 30, 2018.

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
Springdale	AR	Residence Inn	Aimbridge	3/1/2014	72
Chandler	AZ	Courtyard	North Central	11/2/2010	150
Chandler	AZ	Fairfield Inn & Suites	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
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

City	State	Brand	Manager	Date Acquired or Completed	Rooms
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 Inn	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 Inn & Suites	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
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 Inn & Suites	Marriott	7/1/2009	200
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
Sarasota	FL	Homewood Suites	Hilton	3/1/2014	100
Tallahassee	FL	Fairfield Inn & Suites	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
Tampa	FL	TownePlace Suites	McKibbon	3/1/2014	94
Albany	GA	Fairfield Inn & Suites	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
Columbus	GA	SpringHill Suites	LBA	3/1/2014	89 (1)
Columbus	GA	TownePlace Suites	LBA	3/1/2014	86 (1)
Macon	GA	Hilton Garden Inn	LBA	3/1/2014	101
Savannah	GA	Hilton Garden Inn	Newport	3/1/2014	105
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

City	State	Brand	Manager	Date Acquired or Completed	Rooms
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 Inn & Suites	White Lodging	9/1/2016	119
Overland Park	KS	Fairfield Inn & Suites	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
Baton Rouge	LA	SpringHill Suites	Dimension	9/25/2009	119
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
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 Inn & Suites	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
Holly Springs	NC	Hampton	LBA	11/30/2010	124
Jacksonville	NC	Home2 Suites	LBA	9/1/2016	105
Wilmington	NC	Fairfield Inn & Suites	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

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City	State	Brand	Manager	Date Acquired or Completed	Rooms
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	205
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
Austin	TX	Courtyard	White Lodging	11/2/2010	145
Austin	TX	Fairfield Inn & Suites	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
Duncanville	TX	Hilton Garden Inn	Interstate	10/21/2008	142

City	State	Brand	Manager	Date Acquired or Completed	Rooms
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	Courtyard	Aimbridge	3/1/2014	90
Texarkana	TX	Hampton	Aimbridge	1/31/2011	81
Texarkana	TX	TownePlace Suites	Aimbridge	3/1/2014	85
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
Bristol	VA	Courtyard	LBA	11/7/2008	175
Charlottesville	VA	Courtyard	Crestline	3/1/2014	139
Harrisonburg	VA	Courtyard	Newport	3/1/2014	125
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					30,929

(1) Hotel is classified as held for sale as of June 30, 2018 and was subsequently sold in July 2018.

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.

The revolving credit facility, which as of June 30, 2018 had unused borrowing capacity of $321.6 million, is available for acquisitions, hotel renovations and development, share repurchases, working capital and other general corporate funding purposes, including the payment of distributions to shareholders. As of June 30, 2018, the Company's revolving credit facility had an outstanding principal balance of approximately $218.4 million with an annual variable interest rate of approximately 3.64%.

In July 2018, the Company amended and restated its $965 million credit facility and, in August 2018, its $150 million term loan facility, slightly reducing the annual interest rates and extending the maturity dates of both facilities, and reducing the overall total borrowing capacity of the facilities by $40 million.

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 June 30, 2018 and the 2018 debt refinancing.

The credit agreements governing the revolving credit facility and term loans 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 June 30, 2018.

The Company's ATM Program allows it to sell, from time to time, up to an aggregate of $300 million of its common shares through sales agents. Since inception of the ATM Program in February 2017 through June 30, 2018, the Company has sold approximately 7.2 million common shares at a weighted-average market sales price of approximately $19.56 per common share and received aggregate gross proceeds of approximately $139.8 million and proceeds net of offering costs of approximately $137.5 million. During the six months ended June 30, 2018, the Company sold approximately 0.2 million common shares under its ATM Program at a weighted-average market sales price of approximately $19.73 per common share and aggregate gross proceeds of approximately $4.8 million. The Company used the proceeds from the sale of these shares to pay down borrowings on its revolving credit facility. No shares were issued under the ATM Program during the six months ended June 30, 2017. As of June 30, 2018, approximately $160.2 million remained available for issuance under the ATM Program. Future sales will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common shares and opportunities for uses of any proceeds.

As discussed below in "Subsequent Events," in July 2018, the Company sold two hotels and used the net proceeds from the sale to pay down borrowings on its revolving credit facility.

Capital Uses

The Company anticipates that cash flow from operations, availability under its revolving credit facility, availability under its $225 million term loan facility, 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 six months ended June 30, 2018 totaled approximately $138.2 million or $0.60 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 $166.4 million.

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

In May 2018, the Board of Directors approved an extension of the Company's 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 first six months of 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 of approximately $4.3 million. The Company did not purchase any common shares under its Share Repurchase Program during the first six months of 2017. Repurchases under the Share Repurchase Program have been funded, and the Company intends to fund future repurchases, with availability under its revolving credit facility. 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 June 30, 2018, the Company held $29.5 million in reserve related to these properties. During the six months ended June 30, 2018, the Company invested approximately $30.6 million in capital expenditures and anticipates spending an additional $35 million to $45 million during the remainder of 2018, 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 June 30, 2018, the Company had outstanding contracts for the potential purchase of five hotels for a total purchase price of approximately $130.8 million. All five hotels are under development and are planned to be completed and opened for business over the next nine to 30 months from June 30, 2018, 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 a closing on these hotels will occur under the outstanding purchase contracts. The Company intends to use borrowings under its revolving credit facility to purchase hotels under contract if a closing occurs.

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.

Impact of Inflation

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. Currently the Company is not experiencing any material impact from inflation.

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 accounting standards in the first six months of 2018 and the anticipated adoption of recently issued accounting standards.

Subsequent Events

In July 2018, the Company paid approximately $23.0 million, or $0.10 per outstanding common share, in distributions to its common shareholders.

In July 2018, the Company declared a regular monthly cash distribution of $0.10 per common share for the month of August 2018. The distribution is payable on August 15, 2018.

On July 13, 2018, the Company completed the sale of its two Columbus hotels for a total combined gross sales price of $10.0 million. The Company used the net proceeds from the sale to pay down borrowings on its revolving credit facility. See Note 3 titled "Assets Held for Sale and 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.

In July and August 2018, the Company refinanced its $965 million credit facility and its $150 million term loan facility. 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 additional information on the Company's debt refinancing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2018, 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 June 30, 2018, after giving effect to interest rate swaps, as described below, approximately $320.9 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 June 30, 2018, 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 June 30, 2018 were $0.

As of June 30, 2018, the Company's variable rate debt consisted of its $540 million revolving credit facility and term loans totaling $660 million. Currently, the Company uses interest rate swaps to manage its interest rate risk on a portion of its variable rate debt. As of June 30, 2018, the Company had six interest rate swap agreements that effectively fix the interest payments on approximately $557.5 million of the Company's variable rate debt outstanding. In addition, in June 2018, the Company entered into an interest rate swap agreement, which beginning January 31, 2019 will effectively fix the interest rate on $50 million 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, the six term loans and borrowings outstanding under the $540 million revolving credit facility at June 30, 2018. All dollar amounts are in thousands.

	July 1 - December 31, 2018	2019	2020	2021	2022	Thereafter	Total	Fair Market Value
Total debt:								
Maturities (1)	$ 6,595	$252,205	$ 453,349	$ 97,586	$ 109,252	$ 454,780	$1,373,767	$1,363,907
Average interest rates (2)	3.7%	3.7%	3.8%	4.0%	3.9%	3.8%		
Variable rate debt:								
Maturities (1)	$ -	$218,400	$ 425,000	$ 50,000	$ -	$ 185,000	$ 878,400	$ 880,352
Average interest rates (2)	3.3%	3.3%	3.2%	3.3%	3.4%	3.4%		
Fixed rate debt:								
Maturities	$ 6,595	$ 33,805	$ 28,349	$ 47,586	$ 109,252	$ 269,780	$ 495,367	$ 483,555
Average interest rates	4.5%	4.4%	4.4%	4.4%	4.2%	4.1%		

(1) In July and August 2018, the Company amended and restated two of its credit facilities, extending the maturity dates of the variable rate debt reflected in 2019, 2020 and 2021, to 2022 and beyond and reducing the average interest rates on those facilities by approximately 15 basis points as of the respective closing dates.
(2) 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 June 30, 2018. 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

There have been no material changes to the legal proceedings previously disclosed in the 2017 Form 10-K and the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2018, which information is incorporated by reference herein.

Item 1A. Risk Factors

For a discussion of the Company's potential risks and uncertainties, see the section titled "Risk Factors" in the 2017 Form 10-K. There have been no material changes to the risk factors previously disclosed in the 2017 Form 10-K.

Item 6. Exhibits

ExhibitNumber	Description of Documents
3.1	Amended and Restated Articles of Incorporation of the Company, as amended **(FILED HEREWITH)**
3.2	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)
10.1*	Non-Employee Director Deferral Program Under the Company's 2014 Omnibus Incentive Plan **(FILED HEREWITH)**
10.2	Second Amended and Restated Credit Agreement dated as of July 27, 2018, among the Company, as borrower, certain subsidiaries of the Company, as guarantors, Bank of America, N.A., as Administrative Agent, KeyBank National Association and Wells Fargo Bank, National Association, as Co-Syndication Agents, U.S. Bank National Association, as Documentation Agent, Regions Bank as Managing Agent, the Lenders and Letter of Credit Issuers party thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets, Wells Fargo Securities, LLC and U.S. Bank National Association, as Joint Lead Arrangers, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets and Wells Fargo Securities, LLC, as Joint Bookrunners (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K (SEC File No. 001-37389) filed August 1, 2018)
31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **(FILED HEREWITH)**
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **(FILED HEREWITH)**
32.1	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)**
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 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 Cash Flows, and (iv) related notes to these financial statements, tagged as blocks of text and in detail **(FILED HEREWITH)**

* Denotes Compensation Plan

SIGNATURES

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

Apple Hospitality REIT, Inc.

By: /s/ Justin G. Knight Date: August 6, 2018

Justin G. Knight,
President and
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Bryan Peery Date: August 6, 2018

Bryan Peery,
Chief Financial Officer
(Principal Financial and Principal
Accounting Officer)

(Back To Top)

Section 2: EX-3.1 (EXHIBIT 3.1)

Exhibit 3.1

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

APPLE HOSPITALITY REIT, INC.

Article I
NAME

The name of the corporation (the "Corporation") is Apple Hospitality REIT, Inc.

Article II
PURPOSE

The Corporation is organized for the purpose of operating as a "real estate investment trust," as defined in the Internal Revenue Code of 1986, as the same may be amended from time to time (the "Code"), and to acquire, own, operate, manage, lease, finance, refinance, dispose of and otherwise deal with real property (and personal property incidental thereto), and shall have the power to conduct all lawful activities incidental or related thereto, and to engage in any lawful business.

Article III
AUTHORIZED SHARES

3.1 Number and Designation. The number and designation of shares that the Corporation shall have authority to issue are as follows:

Class	Number of Shares
Common	800,000,000
Preferred	30,000,000

The Common Shares and the Preferred Shares shall have no par value per share. The Preferred Shares may be issued from time to time in one or more series. Notwithstanding anything to the contrary in these Articles of Incorporation, the Board of Directors, by adoption of an amendment of these Articles of Incorporation ("Articles of Amendment"), may fix in whole or in part the preferences, limitations, and relative rights, within the limits set forth in the Virginia Stock Corporation Act, of any series within the Preferred Shares prior to the issuance of any shares of that series.

3.2 Preemptive Rights. No holder of outstanding shares shall have any preemptive right with respect to (i) any shares of the Corporation of any class, whether now or hereafter authorized, (ii) any warrants, rights or options to purchase any such shares, or (iii) any obligations convertible into any such shares or into warrants, rights or options to purchase any such shares.

3.3 Debt Securities. The Board of Directors may, in its discretion, authorize and issue any notes, bonds, debentures or other obligations of the Corporation, including any obligations maturing more than one year after the date of issuance thereof, whether or not secured by assignment, pledge or mortgage of any property of the Corporation, on such terms and at such prices as the Board of Directors in its sole discretion determines.

Article IV
COMMON SHARES

4.1 Voting Rights. The holders of the outstanding Common Shares shall, to the exclusion of the holders of any other class of shares of the Corporation, have the sole power to vote for the election of directors and for all other purposes without limitation, except (i) as otherwise provided in the Articles of Amendment establishing any series of preferred shares, or (ii) as may be required by law.

4.2 Distributions. The Board of Directors shall have the authority to declare dividends from funds available for such purposes under the Virginia Stock Corporation Act and shall declare such dividends to the extent necessary to ensure the Corporation's qualification as a real estate investment trust under the Code. Subject to the rights of the holders of shares, if any, ranking senior to the Common Shares as to dividends or rights in liquidation, dissolution or winding up of the affairs of the Corporation, the holders of outstanding Common Shares shall be entitled to receive, if, when and as declared by the Board of Directors, dividends and distributions of the net assets of the Corporation upon the liquidation, dissolution or winding up of the affairs of the Corporation.

Article V
[RESERVED]

Article VI
LIMIT ON LIABILITY AND INDEMNIFICATION

6.1 Limit on Liability. In every instance in which the Virginia Stock Corporation Act, as it exists on the date hereof or may hereafter be amended, permits the limitation or elimination of liability of directors or officers of a corporation to the corporation or its shareholders, the directors and officers of the Corporation shall not be liable to the Corporation or its shareholders.

6.2 Mandatory Indemnification. The Corporation shall indemnify any individual who is, was or is threatened to be made a party to a civil, criminal, administrative, investigative or other proceeding (including a proceeding by or in the right of the Corporation or by or on behalf of its shareholders) because such individual is or was a director or officer of the Corporation or of any legal entity controlled by the Corporation, or is or was a fiduciary of any employee benefit plan established at the direction of the Corporation, against all liabilities and reasonable expenses incurred by him on account of the proceeding, provided that the directors of the Corporation (excluding the indemnified party) determine in good faith that his course of conduct which caused the loss or liability was in the best interests of the Corporation, and provided further that such liabilities and expenses were not incurred because of his willful misconduct, bad faith, reckless disregard of duties or knowing violation of the criminal law. Before any indemnification is paid, a determination shall be made that indemnification is permissible in the circumstances because the person seeking indemnification is eligible for indemnification and has met the standard of conduct set forth above. Such determination shall be made in the manner provided by Virginia law for determining that indemnification of a director is permissible, provided, however, that if a majority of the directors of the Corporation has changed after the date of the alleged conduct giving rise to a claim for indemnification, the determination that indemnification is permissible shall, at the option of the person claiming indemnification, be made by special legal counsel agreed upon by the Board of Directors and such person. Unless a determination has been made that indemnification is not permissible, the Corporation shall make advances and reimbursement for expenses incurred by any person named above upon receipt of an undertaking from him to repay the same if it is ultimately determined that such individual is not entitled to indemnification. The Corporation is authorized to contract in advance to indemnify any of the persons named above to the extent it is required to indemnify them pursuant to the provisions of this Section 6.2.

Notwithstanding the above, indemnification will not be allowed for any liability imposed by judgment, and costs associated therewith, including attorneys' fees, arising from or out of an alleged violation of federal or state securities laws associated with the public offering of the Common Shares unless (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee, or (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee, or (iii) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which securities of the Corporation were offered or sold as to indemnification for violations of securities laws.

6.3 Miscellaneous. The rights of each person or entity entitled to indemnification under this Article shall inure to the benefit of such person's or entity's heirs, executors, administrators, successors or assigns. Indemnification pursuant to this Article shall not be exclusive of any other right of indemnification to which any person or entity may be entitled, including indemnification pursuant to a valid contract, indemnification by legal entities other than the Corporation, and indemnification under policies of insurance purchased and maintained by the Corporation or others. However, no person or entity shall be entitled to indemnification by the Corporation to the extent such person or entity is indemnified by another, including an insurer.

6.4 Amendments. No amendment, modification or repeal of this Article shall diminish the rights provided hereunder to any person or entity arising from conduct or events occurring before the adoption of such amendment, modification or repeal.

Article VII
BOARD OF DIRECTORS

7.1 Terms of Directors. The number of directors of the Corporation shall be determined in accordance with the Bylaws. Until the 2020 annual meeting of shareholders, the directors of the Corporation shall be divided into three classes, each consisting of approximately one-third of the total number of directors. At the 2018 annual meeting of shareholders, the directors who shall be elected at the 2018 annual meeting to fill the directorships held by directors whose terms expire at the 2018 annual meeting shall be elected for one-year terms expiring at the 2019 annual meeting of shareholders; at the 2019 annual meeting of shareholders, the directors who shall be elected at the 2019 annual meeting to fill the directorships held by directors whose terms expire at the 2019 annual meeting shall be elected for one-year terms expiring at the 2020 annual meeting of shareholders; at the 2020 annual meeting of shareholders, the terms of all directors shall expire and at such annual meeting and at each annual meeting thereafter, all directors shall be elected for one-year terms expiring at the next annual meeting. From and after the 2020 annual meeting of shareholders, the directors shall no longer be divided into classes. Each director elected at the 2018 annual meeting of shareholders shall serve a one-year term as provided in this Article VII notwithstanding that the Articles of Amendment effecting these amendments to declassify the Board of Directors as provided herein may be filed with the Virginia State Corporation Commission after the 2018 annual meeting of shareholders at which such director was elected and these amendments were adopted by the shareholders.

Article VIII
AMENDMENT OF ARTICLES
SHAREHOLDER VOTE ON CERTAIN MATTERS

8.1 Amendment of Articles. Except as may be otherwise required by law or these Articles with respect to any outstanding series of Preferred Shares, these Articles may be amended at any time, and from time to time, upon the vote of the holders of a majority of the issued and outstanding Common Shares of the Corporation.

8.2 Votes on Certain Matters. The Corporation's shareholders, by vote of the holders of a majority of the issued and outstanding Common Shares of the Corporation and a majority of the votes entitled to be voted by any other voting group required by law to vote thereon as a separate voting group, may vote to approve a plan of merger, share exchange or dissolution, or to sell, lease, exchange, or otherwise dispose of all, or substantially all, of the Corporation's property otherwise than in the usual and regular course of business.

8.3 Amendment of Bylaws. From and after the effectiveness of the initial listing of Common Shares on a national securities exchange, the Bylaws of the Corporation may be amended or repealed, or new bylaws adopted, at any time, and from time to time, (i) by the Board of Directors or (ii) upon the vote of the holders of a majority of the issued and outstanding Common Shares of the Corporation, and the shareholders in amending, repealing or adopting a bylaw may, except as prohibited by applicable law, expressly provide that the Board of Directors may not amend, repeal or reinstate that bylaw.

Article IX
INTERPRETATIONS

9.1 Interpretations. For the purpose of these Articles, the shares of any class of the Corporation shall be deemed to rank as follows:

(a) senior to a series of preferred shares, either as to dividends or as to rights in liquidation, if the holders of such shares shall be entitled to the receipt of dividends or of amounts distributable upon the liquidation, dissolution or winding up of the affairs of the Corporation, as the case may be, in preference or priority to the holders of that series of preferred shares;

(b) on a parity with a series of preferred shares, either as to dividends or as to rights in liquidation, whether or not the dividend rates, dividend payment dates, or redemption or liquidation prices per share thereof be different from those of that series of preferred shares, if the holders of such shares shall be entitled to the same rights of that series of preferred shares as to the receipt of dividends or of amounts distributable upon the liquidation, dissolution or winding up of the affairs of the Corporation, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority of one over the other as between the holders of such shares; and

(c) junior to a series of preferred shares, either as to dividends or as to rights in liquidation, if such shares shall be Common Shares or if the holders of the series of preferred shares shall be entitled to the receipt of dividends or of amounts distributable upon the liquidation, dissolution or winding up of the affairs of the Corporation, as the case may be, in preference or priority to the holders of such shares.

Article X
RESTRICTIONS ON TRANSFER AND OWNERSHIP OF SHARES

10.1 Definitions. For the purpose of this Article X, the following terms shall have the following meanings:

“Beneficial Ownership” The term “Beneficial Ownership” shall mean ownership of Shares (as defined below) by a Person, whether the interest in the Shares is held directly or indirectly (including by a nominee) by such Person, and shall include interests that would be treated as owned by any Person through the application of Section 544 of the Code, as modified by Sections 856(h)(1)(B) and 856(h)(3) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Business Day” The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

“Charitable Beneficiary” The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to Section 10.3.(g), provided that each such organization must be described in Sections 501(c)(3), 170(b)(1)(A) and 170(c)(2) of the Code.

“Charitable Trust” The term “Charitable Trust” shall mean any trust provided for in Section 10.2.(b)(i) and Section 10.3.

“Charitable Trustee” The term “Charitable Trustee” shall mean the Person unaffiliated with both the Corporation and the relevant Prohibited Owner that is appointed by the Corporation to serve as trustee of the Charitable Trust.

“Common Share Ownership Limit” The term “Common Share Ownership Limit” shall mean not more than 9.8% (or such lower amount designated by the Board of Directors pursuant to Section 10.2.(j)) (in value or in number of Shares, whichever is more restrictive) of the aggregate of the outstanding Common Shares.

“Constructive Ownership” The term “Constructive Ownership” shall mean ownership of Shares by a Person who is or would be treated as an owner of such Shares either actually or constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Own,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

“Initial Date” The term “Initial Date” shall mean the date of the consummation of the initial public offering of the Corporation (but only, with respect to such date, from and after such consummation).

“Market Price” The term “Market Price” on any date shall mean, with respect to any class or series of outstanding Shares, the Closing Price for such Shares on such date. The “Closing Price” on any date shall mean the last sale price for such Shares, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trade on the NYSE or, if such Shares are not listed or admitted to trade on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Shares are listed or admitted to trading or, if such Shares are not listed or admitted to trade on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the principal automated quotation system that may then be in use or, if such Shares are not quoted by any such system, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Shares selected by the Board of Directors or, in the event that no trading price is available for such Shares, the fair market value of Shares, as determined in good faith by the Board of Directors.

“Non-Transfer Event” The term “Non-Transfer Event” shall mean any event or other changes in circumstances other than a purported Transfer, including, without limitation, any change in the value of any Shares and any redemption of any Shares.

“NYSE” The term “NYSE” shall mean the New York Stock Exchange.

“Person” The term “Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including, without limitation, a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

“Preferred Share Ownership Limit” The term “Preferred Share Ownership Limit” shall mean, with respect to any class or series of Preferred Shares, not more than 9.8% (in value or in number of Shares, whichever is more restrictive) of the aggregate of the outstanding Shares of such class or series of Preferred Shares.

"Prohibited Owner" The term "Prohibited Owner" shall mean, with respect to any purported Transfer or Non-Transfer Event, any Person who, but for the provisions of Section 10.2., would Beneficially Own or Constructively Own Shares, and if appropriate in the context, shall also mean any Person who would have been the record owner of Shares that the Prohibited Owner would have so owned.

"REIT" The term "REIT" shall mean a real estate investment trust within the meaning of Sections 856 through 859 of the Code.

"Shares" The term "Shares" shall mean all shares of capital stock that the Corporation is authorized to issue under these Articles.

"Transfer" The term "Transfer" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire or have Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Shares or the right to vote or receive dividends or distributions on Shares, including (a) a change in the capital structure of the Corporation, (b) a change in the relationship between two or more Persons which causes a change in ownership of Shares by application of Section 544 of the Code, as modified by Section 856(h) of the Code, (c) the granting or exercise of any option or warrant (or any acquisition or disposition of any option or warrant), pledge, security interest, or similar right to acquire Shares, (d) any acquisition or disposition of any securities or rights convertible into or exchangeable for Shares or any interest in Shares or any exercise of any such conversion or exchange right and (e) Transfers of interests in other entities that result in changes in Beneficial Ownership or Constructive Ownership of Shares; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms "Transferring" and "Transferred" shall have the correlative meanings.

10.2 Share Ownership Limitations.

(a) Basic Restrictions.

(i) No Person shall Beneficially Own or Constructively Own Common Shares in excess of the Common Share Ownership Limit unless, as provided in Section 10.2(i), the Board of Directors, in its sole and absolute discretion, increases the Common Share Ownership Limit, in which case no Person shall Beneficially Own or Constructively Own Common Shares in excess of such modified Common Share Ownership Limit.

(ii) No Person shall Beneficially Own or Constructively Own Preferred Shares in excess of the Preferred Share Ownership Limit unless, as provided in Section 10.2(i), the Board of Directors, in its sole and absolute discretion, increases the Preferred Share Ownership Limit, in which case no Person shall Beneficially Own or Constructively Own Preferred Shares in excess of such modified Preferred Share Ownership Limit.

(iii) No Person shall Beneficially Own or Constructively Own Shares to the extent that:

(1) such Beneficial Ownership or Constructive Ownership of Shares would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year);

(2) such Beneficial Ownership or Constructive Ownership of Shares would result in (a) the Corporation owning (directly or indirectly) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation (either directly or indirectly through one or more partnerships or limited liability companies) from such tenant for the taxable year of the Corporation during which such determination is being made would reasonably be expected to equal or exceed the lesser of (I) one percent (1%) of the Corporation's gross income (as determined for purposes of Section 856(c) of the Code), or (II) an amount that would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code or (b) any manager or operator of a "qualified lodging facility," within the meaning of Section 856(d)(9)(D) of the Code, leased by the Corporation (or any subsidiary of the Corporation) to one of its taxable REIT subsidiaries with respect to the Corporation failing to qualify as an "eligible independent contractor," within the meaning of Section 856(d)(9)(A) of the Code, in either case if the income derived by the Corporation from such tenant or such taxable REIT subsidiary, taking into account any other income of the Corporation that would not qualify under the gross income requirements of Section 856(c) of the Code, would (or in the sole judgment of the Board of Directors, could) cause the Corporation to fail to satisfy any of such gross income requirements; or

(3) such Beneficial Ownership or Constructive Ownership of Shares would result in the Corporation otherwise failing to qualify as a REIT.

(iv) No Person shall Transfer any Shares if, as a result of the Transfer, the Shares would be Beneficially Owned by fewer than 100 Persons (determined without reference to the rules of attribution under the Code). Subject to Section 10.4 and notwithstanding any other provisions contained herein, any Transfer of Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) that, if effective, would result in Shares being Beneficially Owned by fewer than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void *ab initio*, and the intended transferee shall acquire no rights in such Shares.

(b) Transfer in Trust.

(i) If any Transfer of Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) or Non-Transfer Event occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning Shares in violation of Section 10.2(a)(i), (ii), or (iii), then that number of Shares the Beneficial Ownership or Constructive Ownership of which otherwise would cause such Person to violate Section 10.2(a)(i), (ii), or (iii) (rounded up to the nearest whole

Share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 10.3, effective as of the close of business on the Business Day prior to the date of such Transfer or Non-Transfer Event, and such Person shall acquire no rights in such Shares.

(ii) If the transfer to the Charitable Trust described in clause (i) of this subparagraph would not be effective for any reason to prevent the violation of Section 10.2(a)(i), (ii) or (iii), or would not prevent the Corporation from failing to qualify as a REIT, then the Transfer of that number of Shares that otherwise would cause any Person to violate Section 10.2(a)(i), (ii) or (iii) shall be void *ab initio*, and the intended transferee shall acquire no rights in such Shares.

(iii) In determining which Shares are to be transferred to a Charitable Trust in accordance with this Section 10.2.(b) and Section 10.3 hereof, Shares shall be so transferred to a Charitable Trust in such manner as minimizes the aggregate value of the Shares that are transferred to the Charitable Trust (except as provided in Section 10.2.(g)) and, to the extent not inconsistent therewith, on a pro rata basis.

(iv) To the extent that, upon a transfer of Shares pursuant to this Section 10.2.(b), a violation of any provision of Section 10.2.(a) would nonetheless be continuing (as, for example, where the ownership of Shares by a single Charitable Trust would result in the Shares being Beneficially Owned (determined under the principles of Section 856(a)(5) of the Code) by fewer than 100 persons), then Shares shall be transferred to that number of Charitable Trusts, each having a Charitable Trustee and a Charitable Beneficiary or Charitable Beneficiaries that are distinct from those of each other Charitable Trust, such that there is no violation of any provision of Section 10.2.(a) hereof.

(c) Remedies for Breach. If the Board of Directors or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or Non-Transfer Event has taken place that results in a violation of Section 10.2(a) or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any Shares in violation of Section 10.2(a) (whether or not such violation is intended), the Board of Directors or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or Non-Transfer Event, including, without limitation, causing the Corporation to redeem Shares, refusing to give effect to such Transfer or Non-Transfer Event on the books of the Corporation or instituting proceedings to enjoin such Transfer or Non-Transfer Event; provided, however, that any Transfer or attempted Transfer or Non-Transfer Event in violation of Section 10.2(a) shall automatically result in the Transfer to the Charitable Trust described above, and, where applicable, such Transfer (or other event) shall be void *ab initio* as provided above irrespective of any action (or non-action) by the Board of Directors or a committee thereof.

(d) Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of Shares that will or may violate Section 10.2.(a), or any Person who would have owned Shares that resulted in a transfer to the Charitable Trust pursuant to the provisions of Section 10.2.(b), shall immediately give written notice to the Corporation of such event or, in the case of such a proposed or attempted transaction, shall give at least fifteen (15) days prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such acquisition or ownership on the Corporation's status as a REIT.

(e) Holders Required To Provide Information.

(i) Every holder of more than five percent (5%) (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding Shares, within thirty (30) days after the end of each taxable year, shall give written notice to the Corporation stating the name and address of such owner, the number of Shares Beneficially Owned and a description of the manner in which such Shares are held; provided, that a holder of record who holds outstanding Shares as nominee for another Person, which other Person is required to include in gross income the dividends or distributions received on such Shares (an "Actual Owner"), shall give written notice to the Corporation stating the name and address of such Actual Owner and the number of Shares of such Actual Owner with respect to which the holder of record is nominee. Each holder shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Common Share Ownership Limit or the Preferred Share Ownership Limit.

(ii) Each Person who is a Beneficial Owner or Constructive Owner of Shares and each Person (including the holder of record) who is holding Shares for a Beneficial Owner or Constructive Owner shall provide to the Corporation such information as the Corporation may request, in good faith, in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the Common Share Ownership Limit and the Preferred Share Ownership Limit.

(f) Remedies Not Limited. Subject to 10.4 of these Articles, nothing contained in this Section 10.2 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its holders in preserving the Corporation's status as a REIT.

(g) Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 10.2, Section 10.3 or any definition contained in Section 10.1, the Board of Directors shall have the power to determine the application of the provisions of this Section 10.2 or Section 10.3 with respect to any situation based on the facts known to it. If Section 10.2 or 10.3 requires an action by the Board of Directors and these Articles fail to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 10.1, 10.2 or 10.3.

(h) Exemptions.

(i) Subject to Section 10.2.(a)(iii), the Board of Directors may exempt, prospectively or retroactively, a Person from the Common Share Ownership Limit or the

Preferred Share Ownership Limit for purposes of the application of Section 10.2.(a)(i) or (ii), as applicable, if:

(1) the Board of Directors determines, in its sole discretion, based on representations and undertakings provided by such Person to the Board of Directors and/or other information submitted by such Person to the Board of Directors, that such Person is not an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code);

(2) such Person submits to the Board of Directors information satisfactory to the Board of Directors, in its reasonable discretion, demonstrating that no Person who is an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code) would be considered to Beneficially Own Common Shares in excess of the Common Share Ownership Limit or, Preferred Shares in excess of the Preferred Share Ownership Limit by reason of such Person's ownership of Common Shares in excess of the Common Share Ownership Limit or Preferred Shares in excess of the Preferred Share Ownership Limit pursuant to the exemption granted under this subparagraph (h)(i);

(3) such Person submits to the Board of Directors information satisfactory to the Board of Directors, in its reasonable discretion, demonstrating that clauses (2) and (3) of subparagraph (a)(iii) of this Section 10.2. will not be violated by reason of such Person's ownership of Common Shares in excess of the Common Share Ownership Limit or Preferred Shares in excess of the Preferred Share Ownership Limit pursuant to the exemption granted under this subparagraph (h)(i); and

(4) such Person provides to the Board of Directors such representations and undertakings, if any, as the Board of Directors may, in its reasonable discretion, require to ensure that the conditions in clauses (1), (2) and (3) hereof are satisfied and will continue to be satisfied throughout the period during which such Person owns Common Shares in excess of the Common Share Ownership Limit or Preferred Shares in excess of the Preferred Share Ownership Limit pursuant to any exemption thereto granted under this subparagraph (h), and such Person agrees that any violation of such representations and undertakings or any attempted violation thereof will result in the application of the remedies set forth in this Section 10.2 (including, without limitation, Section 10.2.(f) with respect to Common Shares in excess of the Common Share Ownership Limit or Preferred Shares in excess of the Preferred Share Ownership Limit with respect to such Person (determined without regard to the exemption granted such Person under this subparagraph (h)(i).

(ii) Prior to granting any exemption pursuant to subparagraph (h)(i), the Board of Directors, in its sole and absolute discretion, may require a ruling from the Internal Revenue Service or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors, in its sole and absolute discretion as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT; provided, however, that the Board of Directors shall not be obligated to require obtaining a favorable ruling or opinion in order to grant an exception hereunder. In addition, notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(iii) Subject to Section 10.2.(a)(iii), an underwriter that participates in a public offering or a private placement of Shares (or securities convertible into or exchangeable for Shares, if any) may Beneficially Own or Constructively Own Shares (or securities convertible into or exchangeable for Shares) in excess of the Common Share Ownership Limit or the Preferred Share Ownership Limit, but only to the extent necessary to facilitate such public offering or private placement.

(i) Increase in Common Share Ownership Limit or the Preferred Share Ownership Limit.

(i) Subject to the limitations provided in Section 10.2.(a)(iii) and this Section 10.2.(i), the Board of Directors may, in its sole and absolute discretion, from time to time increase the Common Share Ownership Limit or the Preferred Share Ownership Limit for any one or more Persons; provided, however, that:

(1) The Common Share Ownership Limit or the Preferred Share Ownership Limit may not be increased if, after giving effect to such change, either (x) five Persons who are considered individuals pursuant to Section 542 of the Code, as modified by Section 856(h)(3) of the Code, could Beneficially Own, in the aggregate, more than 49.9% of the value of the outstanding Shares (determined taking into account any reduction in the Common Share Ownership Limit or the Preferred Share Ownership Limit for other Persons being made contemporaneously pursuant to Section 10.2.(j)), or (y) either clause (2) or clause (3) of subparagraph (a)(iii) of Section 10.2. could be violated by any Person for whom the Common Share Ownership Limit or the Preferred Share Ownership Limit is increased by reason of such Person's ownership of Common Shares in accordance with the increased Common Share Ownership Limit or ownership of Preferred Shares in accordance with the increased Preferred Share Ownership Limit.

(2) Prior to the modification of the Common Share Ownership Limit or the Preferred Share Ownership Limit pursuant to this Section 10.2.(i), the Board of Directors, in its sole and absolute discretion, may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT if the modification of the Common Share Ownership Limit or the Preferred Share Ownership Limit were to be made.

(j) Decrease in Common Share Ownership Limit or the Preferred Share Ownership Limit. The Board of Directors may from time to time decrease the Common Share Ownership Limit or the Preferred Share Ownership Limit for some or all Persons (including in connection with an increase of the Common Share Ownership Limit or the Preferred Share Ownership Limit pursuant to Section 10.2.(i) for some Persons); provided, however, that any such decreased Ownership Limit will not be effective for any Person whose percentage ownership in Common Shares or Preferred Shares, as the case may be, is in excess of the decreased Ownership Limit until such time as such Person's percentage ownership of Common Shares or Preferred Shares, as the case may be, equals or falls below the decreased Ownership Limit, but any further acquisition of Common Shares or Preferred Shares, as the case may be, in excess of such percentage ownership of Common Shares or Preferred Shares, as the case may be, as decreased, will be in violation of the Ownership Limits.

(k) Legend. Each certificate for Shares shall bear substantially the following legend:

The Shares represented by this certificate are subject to restrictions on Beneficial Ownership, Constructive Ownership and Transfer. Subject to certain further restrictions and except as expressly provided in the Corporation's Articles of Incorporation, (i) no Person may Beneficially Own or Constructively Own Common Shares of the Corporation in excess of 9.8% (in value or number of Shares, whichever is more restrictive) of the outstanding Common Shares of the Corporation; (ii) no Person may Beneficially Own or Constructively Own Preferred Shares of the Corporation in excess of 9.8% (in value or number of Shares, whichever is more restrictive) of the total outstanding Preferred Shares of the Corporation of such class or series; (iii) no Person may Beneficially Own or Constructively Own Shares of the Corporation that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; (iv) no Person may Beneficially Own or Constructively Own Shares of the Corporation that would result in (a) the Corporation owning (directly or indirectly) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation (either directly or indirectly through one or more partnerships or limited liability companies) from such tenant for the taxable year of the Corporation during which such determination is being made would reasonably be expected to equal or exceed the lesser of (I) one percent (1%) of the Corporation's gross income (as determined for purposes of Section 856(c) of the Code), or (II) an amount that would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code or (b) any manager or operator of a "qualified lodging facility," within the meaning of Section 856(d)(9)(D) of the Code, leased by the Corporation (or any subsidiary of the Corporation) to one of its taxable REIT subsidiaries with respect to the Corporation failing to qualify as an "eligible independent contractor," within the meaning of Section 856(d)(9)(A) of the Code, in either case if the income derived by the Corporation from such tenant or such taxable REIT subsidiary, taking into account any other income of the Corporation that would not qualify under the gross income requirements of Section 856(c) of the Code, would cause the Corporation to fail to satisfy any of such gross income requirements; and (v) no Person may Transfer Shares of the Corporation if such Transfer would result in Shares of the Corporation being owned by fewer than 100 Persons (as determined under the principles of Section 856(a)(5) of the Code). Any Person who

Beneficially Owns or Constructively Owns, Transfers or attempts to Beneficially Own or Constructively Own Shares of the Corporation which causes or will cause a Person to Beneficially Own or Constructively Own Shares of the Corporation in excess or in violation of the above limitations must immediately notify the Corporation. If certain of the restrictions on Transfer or ownership above are violated, the Shares of the Corporation represented hereby will be automatically Transferred to a Charitable Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries. In addition, the Corporation may take other actions, including redeeming Shares upon the terms and conditions specified by the Board of Directors in its sole and absolute discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described above. Furthermore, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void *ab initio*. A Person who attempts to Beneficially Own or Constructively Own Shares in violation of the ownership limitations described above shall have no claim, cause of action or any recourse whatsoever against a transferor of such Shares. All capitalized terms in this legend have the meanings defined in the Articles of Incorporation of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on Transfer and ownership, will be furnished to each holder of Shares of the Corporation on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation.

Instead of the foregoing legend, the certificate may state that the Corporation will furnish a full statement about certain restrictions on transferability to a holder on request and without charge.

10.3 Transfer of Shares in Trust.

(a) Ownership in Trust. Upon any purported Transfer or other event described in Section 10.2.(b) that would result in a transfer of Shares to a Charitable Trust, such Shares shall be deemed to have been transferred to the Charitable Trustee as trustee of a Charitable Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Charitable Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the Transfer to the Charitable Trust pursuant to Section 10.2.(b). The Charitable Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 10.3.(g).

(b) Status of Shares Held by the Charitable Trustee. Shares held by the Charitable Trustee shall be issued and outstanding Shares of the Corporation. The Prohibited Owner shall have no rights in the Shares held by the Charitable Trustee. The Prohibited Owner shall not benefit economically from ownership of any Shares held in trust by the Charitable Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the Shares held in the Charitable Trust. The Prohibited Owner shall have no claim, cause of action, or any other recourse whatsoever against the purported transferor of such Shares.

(c) Dividend and Voting Rights. The Charitable Trustee shall have all voting rights and rights to dividends or other distributions with respect to Shares held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Corporation that Shares have been transferred to the Charitable Trustee shall be paid with respect to such Shares to the Charitable Trustee by the Prohibited Owner upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Charitable Trustee. Any dividends or distributions so paid over to the Charitable Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to Shares held in the Charitable Trust and, subject to Virginia law, effective as of the date that Shares have been transferred to the Charitable Trustee, the Charitable Trustee shall have the authority (at the Charitable Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that Shares have been transferred to the Charitable Trustee and (ii) to recast such vote in accordance with the desires of the Charitable Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible action, then the Charitable Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article X, until the Corporation has received notification that Shares have been transferred into a Charitable Trust, the Corporation shall be entitled to rely on its share transfer and other holder records for purposes of preparing lists of holders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of holders.

(d) Rights Upon Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding up of or any distribution of the assets of the Corporation, the Charitable Trustee shall be entitled to receive, ratably with each other holder of Shares of the class or series of Shares that is held in the Charitable Trust, that portion of the assets of the Corporation available for distribution to the holders of such class or series (determined based upon the ratio that the number of Shares of such class or series of Shares held by the Charitable Trustee bears to the total number of Shares of such class or series of Shares then outstanding). The Charitable Trustee shall distribute any such assets received in respect of the Shares held in the Charitable Trust in any liquidation, dissolution or winding up of, or distribution of the assets of the Corporation, in accordance with Section 10.3.(e).

(e) Sale of Shares by Charitable Trustee. Within twenty (20) days of receiving notice from the Corporation that Shares have been transferred to the Charitable Trust, the Charitable Trustee shall sell the Shares held in the Charitable Trust to a person, designated by the Charitable Trustee, whose ownership of the Shares will not violate the ownership limitations set forth in Section 10.2.(a). In connection with any such sale, the Charitable Trustee shall use good faith efforts to sell such Shares at a fair market price. Upon such sale, the interest of the Charitable Beneficiary in the Shares sold shall terminate and the Charitable Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 10.3.(e). The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the Shares or, if the Prohibited Owner did not give value for the Shares in connection with the event causing the Shares to be held in the Charitable Trust (e.g., in the case of a gift, devise or other such transaction), the Market Price of the Shares on the day of the event causing the Shares to be held in the Charitable Trust and (2) the price per share received by the Charitable Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the Shares held in the Charitable Trust. The Charitable Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Charitable Trustee pursuant to Section 10.3.(c) of this Article X. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that Shares have been transferred to the Charitable Trustee, such Shares are sold by a Prohibited Owner, then (i) such Shares shall be deemed to have been sold on behalf of the Charitable Trust and (ii) to the extent that the Prohibited Owner received an amount for such Shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 10.3.(e), such excess shall be paid to the Charitable Trustee by the Prohibited Owner upon demand. The Charitable Trustee shall have the right and power (but not the obligation) to offer any Shares held in trust for sale to the Corporation on such terms and conditions as the Charitable Trustee shall deem appropriate.

(f) Purchase Right in Shares Transferred to the Charitable Trustee. Shares transferred to the Charitable Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. If the Corporation, or its designee, accepts such offer, the Corporation may reduce the amount payable to the Prohibited Owner by the amount of dividends and distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Charitable Trustee pursuant to Section 10.3.(c) of this Article X and, if the Corporation, or its designee, elects to do so, the Corporation shall pay the amount of such reduction to the Charitable Trustee for the benefit of the Charitable Beneficiary. The Corporation shall have the right to accept such offer until the Charitable Trustee has sold the Shares held in the Charitable Trust pursuant to Section 10.3.(e). Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the Shares sold shall terminate and the Charitable Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and any dividends or other distributions held by the Charitable Trustee will be paid to the Charitable Beneficiary, each as provided in Section 10.3.(e).

(g) Designation of Charitable Beneficiaries. By written notice to the Charitable Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Charitable Trust such that (i) Shares held in the Charitable Trust would not violate the restrictions set forth in Section 10.2.(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Sections 501(c)(3), 170(b)(1)(A) or 170(c)(2) of the Code.

10.4 NYSE Transactions. Nothing in this Article X shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction takes place shall not negate the effect of any other provision of this Article X and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article X.

10.5 Enforcement. The Corporation is specifically authorized to seek equitable relief, including injunctive relief, to enforce the provisions of this Article X.

10.6 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

Article XI
CONTROL SHARE ACQUISITION

11.1 Affiliated Transactions. The Corporation shall not be governed by Article 14 (Affiliated Transactions) of the Virginia Stock Corporation Act.

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Section 3: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

Non-Employee Director Deferral Program
Under
Apple Hospitality REIT, Inc. 2014 Omnibus Incentive Plan

Section 1. *Purpose and Effect.*

(a) This Non-Employee Director Deferral Program (the "Program") is being adopted under the Apple Hospitality REIT, Inc. 2014 Omnibus Incentive Plan (the "Plan"), effective as of June 1, 2018. The Program authorizes the ability to elect to defer income that would otherwise be recognized by directors who are not also employees of the Company or one of its Affiliates ("Non-Employee Directors") upon their receipt of the annual retainer payable to Non-Employee Directors, which is payable in quarterly installments in the form of fully vested shares of Stock and cash. The Program shall be subject to the provisions of the Plan and the terms and conditions set forth in this document. Capitalized terms used, but not defined below shall have the meaning given such terms in the Plan.

(b) In accordance with the rules set forth herein, Non-Employee Directors may elect to defer the receipt of all or a portion of the annual retainer to which they are otherwise entitled by making a timely deferral election in accordance with the provisions of this document (a "Deferral Election"). For the avoidance of doubt, Non-Employee Directors may make Deferral Elections with respect to the portion of the annual retainer payable in cash (including cash fees paid for service as the Chair of a committee of the Board or Lead Independent Director) ("Cash Fees") and/or the portion of the annual retainer payable in fully vested shares of Stock ("Stock Fees"). Non-Employee Directors who elect to defer Cash Fees must also elect whether such deferred Cash Fees will be settled in shares of Stock or cash. All Deferral Elections in respect of Stock Fees and all Deferral Elections in respect of Cash Fees for which the Non-Employee Director elects to receive settlement in shares of Stock shall hereinafter be referred to as "Stock Deferral Elections," and all Deferral Elections in respect of Cash Fees for which the Non-Employee Director elects to receive settlement in cash shall hereinafter be referred to as "Cash Deferral Elections."

(c) This Program will be administered under the supervision of the Nominating and Corporate Governance Committee of the Board (the "Committee"), and the Committee will prescribe guidelines and forms for the implementation and administration of this Program. The Committee's decisions in its administration of this Program are final, conclusive, and binding on all Persons. The Committee may amend, suspend, or terminate this Program at any time and for any reason; provided, however, that no amendment, suspension or termination will, without the consent of the Non-Employee Director, impair the rights or obligations of a Non-Employee Director hereunder with respect to any award previously granted under this Program.

Section 2. *Deferral Election.*

(a) To elect a deferral, a Non-Employee Director must make a Deferral Election in accordance with this Program on or before December 31 of the year preceding the year in which the annual retainer would otherwise have been earned (except for calendar year 2018). A Non-Employee Director who is newly elected to the Board may make a Deferral Election within thirty (30) days after the date of being elected to the Board provided that such Deferral Election may only relate to payments that relate to services performed after the date such Deferral Election is made, as determined in accordance with Section 409A of the Code. Notwithstanding the foregoing, with respect to calendar year 2018, a Non-Employee Director may make a Deferral Election in accordance with this Program on or before June 30, 2018, and any such Deferral Election shall only relate to payments that relate to services performed by the Non-Employee Director during the period commencing on the later of (i) June 1, 2018 and (ii) the day after the date such Deferral Election is made, and ending on February 28, 2019.

(b) A Deferral Election made pursuant to this Section 2 shall be timely made in writing and shall specify the time of payment in accordance with the rules for payment under Section 4 of this Program. Any Deferral Election made pursuant to this Section 2 shall be irrevocable.

(c) Deferral Elections made pursuant to this Program must be made in writing in such form as determined by the Committee, and shall be subject to such other procedural rules as the Committee may establish. The Deferral Election forms must be received by the Company (to the attention of the individual specified in the Deferral Election) by the time prescribed in Section 2(a) of this Program.

Section 3. *Deferral Account*. A deferral account ("Deferral Account") shall be established and maintained for each Non-Employee Director who has made a Deferral Election, subject to the following rules:

(a) For each Stock Deferral Election, a vested deferred Stock Unit (a "Deferred Stock Unit") shall be credited to the Non-Employee Director's Deferral Account as of each date on which the applicable portion of the annual retainer otherwise would have been paid to the Non-Employee Director (whether in Stock or cash) (each such date, a "Quarterly Deferral Date"). With respect to any Stock Fees deferred by a Non-Employee Director pursuant to a Stock Deferral Election, the number of Deferred Stock Units that shall be credited to the Non-Employee Director's Deferral Account shall be equal to the number of shares of Stock that otherwise would have been paid to the Non-Employee Director on the applicable Quarterly Deferral Date in respect of such Stock Fees, rounded to the nearest whole unit. With respect to any Cash Fees deferred by a Non-Employee Director pursuant to a Stock Deferral Election, the number of Deferred Stock Units that shall be credited to the Non-Employee Director's Deferral Account shall be equal to the amount of such Cash Fees that otherwise would have been paid to the Non-Employee Director on the applicable Quarterly Deferral Date divided by the Fair Market Value of a share of Stock on such Quarterly Deferral Date, rounded to the nearest whole unit. No Stock underlying a Deferred Stock Unit will be issued to a Non-Employee Director until the Payment Date, as specified in Section 4 of this Program.

(b) With respect to each Deferred Stock Unit credited to the Non-Employee Director's Deferral Account pursuant to Section 3(a), the Non-Employee Director's Deferral Account shall be credited, on a quarterly basis as of each subsequent Quarterly Deferral Date, with additional Deferred Stock Units (each, an "Additional Deferred Stock Unit") in respect of each cash dividend declared by the Company on the outstanding shares of Stock, and for which a record date occurs, between the date the Deferred Stock Unit is credited to the Non-Employee Director's Deferral Account and the Quarterly Deferral Date in question. The number of

Additional Deferred Stock Units to be credited to the Non-Employee Director's Deferral Account as of each Quarterly Deferral Date in respect of such dividends shall be equal to (i) the product of (A) the number of Deferred Stock Units as of the immediately preceding Quarterly Deferral Date and (B) the aggregate applicable dividend amount for all dividends for which a record date occurs between such immediately preceding Quarterly Deferral Date and the Quarterly Deferral Date in question, divided by (ii) the Fair Market Value of a share of Stock on the Quarterly Deferral Date in question. Additional Deferred Stock Units, if any, shall be credited to Deferral Accounts on a quarterly basis on or as soon as practicable following each Quarterly Deferral Date; provided, however, that with respect to the quarterly period during which a Non-Employee Director's Payment Date (as defined below) occurs, Additional Deferred Stock Units in respect of any cash dividends declared by the Company since the immediately preceding Quarterly Deferral Date prior to the Non-Employee Director's Payment Date shall be credited as of the later of (x) the Payment Date and (y) the payment date of the most recent dividend declared during such quarterly period. With respect to each crediting of Additional Deferred Stock Units pursuant to this Section 3(b), the number of Additional Deferred Stock Units credited as of each Quarterly Deferral Date to each Non-Employee Director's Deferral Account shall be rounded to the nearest whole unit.

(c) With respect to each Cash Deferral Election, a cash amount shall be credited to the Non-Employee Director's Deferral Account as of each Quarterly Deferral Date. The amount credited shall be equal to the amount of Cash Fees that otherwise would have been paid to the Non-Employee Director on such Quarterly Deferral Date.

(d) With respect to all deferred Cash Fees credited to the Non-Employee Director's Deferral Account pursuant to Section 3(c), the Non-Employee Director's Deferral Account shall be credited, on a quarterly basis as of each subsequent Quarterly Deferral Date, with an additional cash amount in respect of each cash dividend declared by the Company on the outstanding shares of Stock, and for which a record date occurs, between the immediately preceeding Quarterly Deferral Date and the Quarterly Deferral Date in question. The additional cash amount to be credited to the Non-Employee Director's Deferral Account as of each Quarterly Deferral Date in respect of such dividends shall be equal to (i) the quotient obtained by dividing (A) the amount of deferred cash balance in the Deferral Account as of the immediately preceeding Quarterly Deferral Date by (B) the Fair Market Value of a share of Stock on the Quarterly Deferral Date in question, multiplied by (ii) the aggregate applicable dividend amount for all dividends for which a record date occurs between such immediately preceding Quarterly Deferral Date and the Quarterly Deferral Date in question. Additional cash amounts, if any, shall be credited to Deferral Accounts on a quarterly basis on or as soon as practicable following each Quarterly Deferral Date; provided, however, that with respect to the quarterly period during which a Non-Employee Director's Payment Date occurs, additional cash amounts in respect of any cash dividends declared by the Company since the immediately preceding Quarterly Deferral Date prior to the Non-Employee Director's Payment Date shall be credited as of the later of (x) the Payment Date and (y) the payment date of the most recent dividend declared during such quarterly period.

(e) The number of Deferred Stock Units credited to the Non-Employee Director's Deferral Account, if any, shall be appropriately and equitably adjusted to reflect any change in the outstanding shares of Stock of the Company in the event of any stock dividend or other distribution payable in capital stock, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares or other securities of the Company, or other similar corporate transaction or event affecting the shares of Stock.

(f) Non-Employee Directors who elect to make a Stock Deferral Election in accordance with this Program will have no rights as stockholders of the Company with respect to Deferred Stock Units credited to their Deferral Accounts.

Section 4. *Payment of Deferred Amounts*.

(a) Payment of the aggregate value in a Non-Employee Director's Deferral Account shall be made in a lump sum at the time of or in connection with the event specified by the Non-Employee Director in his or her Deferral Election (the "Payment Date"), but in no event later than sixty (60) days following the Payment Date.

(b) Deferred Stock Units credited to a Non-Employee Director's Deferral Account in respect of Stock Deferral Elections shall be settled solely in the form of whole shares of Stock. The number of whole shares of Stock payable to the Non-Employee Director shall be equal to the number of Deferred Stock Units in the Non-Employee Director's Deferral Account.

(c) The cash amounts credited to a Non-Employee Director's Deferral Account in respect of Cash Deferral Elections shall be paid to the Non-Employee Director solely in the form of cash.

(d) In the event a Non-Employee Director dies prior to receiving payment of the aggregate value in his or her Deferral Account, such payment shall be made to the Non-Employee Director's designated beneficiary(ies) (or, if none, his or her estate) as soon as practicable following the Non-Employee Director's death (but in no event later than sixty (60) days following such death).

(e) The delivery of shares of Stock hereunder shall be subject to and contingent upon the completion of any registration or qualification of the Stock under any federal or state law or governmental rule or regulation that the Company, in its sole discretion, determines to be necessary or advisable.

Section 5. *Unfunded and Unsecured Program*. All Deferral Accounts shall be hypothetical in nature and shall be maintained for bookkeeping purposes only. All Deferral Accounts shall be unfunded for tax purposes and no provision shall be made at any time with respect to segregating assets of the Company for payment of amounts in any Deferral Account. The obligation of the Company to make payments pursuant to this Program constitutes an unsecured but legally enforceable promise of the Company to make such payments.

Section 6. *Construction*. This Program is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Program will be interpreted and administered to be in compliance with Section 409A of the Code. Any Deferral Election that is inconsistent with Section 409A of the Code shall not be effective. Notwithstanding anything to the contrary in the Plan or this Program, neither the

Company, its Affiliates, the Board, nor the Committee will have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Non-Employee Director under Section 409A of the Code, and neither the Company, its Affiliates, the Board, nor the Committee will have any liability to any Non-Employee Director or other Person for such tax or penalty.

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Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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: August 6, 2018

/s/ Justin G. Knight

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

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Section 5: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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: August 6, 2018

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

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Section 6: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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 ending June 30, 2018 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 June 30, 2018, and for the period then ended.

Apple Hospitality REIT, Inc.

/s/ Justin G. Knight
Justin G. Knight
President and Chief Executive Officer

/s/ Bryan Peery
Bryan Peery
Chief Financial Officer

August 6, 2018

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