

LaSalle Hotel Properties
Form 10-K
February 22, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2016

OR

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

For the transition period from to .

Commission file number 1-14045

LASALLE HOTEL PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland 36-4219376

(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

7550 Wisconsin Avenue, 10th Floor 20814
Bethesda, Maryland

(Address of principal executive offices) (Zip Code)

(301) 941-1500

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on
which registered

Common Shares of Beneficial Interest (\$0.01 par value)

New York Stock Exchange

7.5% Series H Cumulative Redeemable Preferred Shares (\$0.01
par value)

New York Stock Exchange

6.375% Series I Cumulative Redeemable Preferred Shares (\$0.01
par value)

New York Stock Exchange

6.3% Series J Cumulative Redeemable Preferred Shares (\$0.01 par
value)

New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ..

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes .. No ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of the 113,063,912 common shares of beneficial interest held by non-affiliates of the registrant was approximately \$2.7 billion based on the closing price on the New York Stock Exchange for such common shares of beneficial interest as of June 30, 2016.

Number of the registrant's common shares of beneficial interest outstanding as of February 15, 2017: 113,077,441.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Shareholders to be held on or about May 4, 2017 are incorporated by reference in Part II and Part III of this report as noted therein.

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Forward-Looking Statements

This report, together with other statements and information publicly disseminated by LaSalle Hotel Properties (the “Company”), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company’s future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “may,” “plan,” “seek,” “should,” “will” or other expressions. Forward-looking statements in this report include, among others, statements about the Company’s business strategy, including its acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond the Company’s control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the hotel industry, including competition for guests and meetings from other hotels and alternative lodging companies, increases in wages, energy costs and other operating costs, potential unionization or union disruption, actual or threatened terrorist attacks, any type of flu or disease-related pandemic and downturns in general and local economic conditions;

- the availability and terms of financing and capital and the general volatility of securities markets;

- the Company’s dependence on third-party managers of its hotels, including its inability to implement strategic business decisions directly;

- risks associated with the real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act of 1990, as amended (the “ADA”), and similar laws;

- interest rate increases;

- the possible failure of the Company to maintain its qualification as a real estate investment trust (“REIT”) for federal income tax purposes and the risk of changes in laws affecting REITs;

- the possibility of uninsured losses;

- risks associated with redevelopment and repositioning projects, including delays and cost overruns;

- the risk of a material failure, inadequacy, interruption or security failure of the Company’s or the hotel managers’ information technology networks and systems; and

- the factors discussed under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K.

Accordingly, there is no assurance that the Company’s expectations will be realized. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for the Company to predict those events or how they may affect the Company. Except as otherwise required by law, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the Company’s expectations with regard thereto or

any change in events, conditions or circumstances on which any such statement is based. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time they were made, to anticipate future events or trends.

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PART I

Item 1. Business

The “Company,” “we,” “our” or “us” means LaSalle Hotel Properties and one or more of its subsidiaries (including LaSalle Hotel Operating Partnership, L.P. (the “Operating Partnership”) and LaSalle Hotel Lessee, Inc. (together with its wholly owned subsidiaries, “LHL”)), or, as the context may require, LaSalle Hotel Properties only, the Operating Partnership only or LHL only.

General

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

As of December 31, 2016, the Company owned interests in 46 hotels with approximately 11,450 guest rooms located in nine states and the District of Columbia. Each hotel is leased to LHL under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2017 and December 2019. Lease revenue from LHL is eliminated in consolidation. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement, the terms of which are discussed in more detail under “—Hotel Managers and Hotel Management Agreements.”

Substantially all of the Company’s assets are held directly or indirectly by, and all of its operations are conducted through, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at December 31, 2016. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at December 31, 2016. Subject to certain limitations, common units in the Operating Partnership are redeemable for cash, or at the Company’s option, for a like number of the Company’s common shares of beneficial interest, \$0.01 par value per share.

The Company’s principal offices are located at 7550 Wisconsin Avenue, 10th Floor, Bethesda, Maryland 20814. The Company’s website is www.lasallehotels.com. The Company makes available on its website free of charge its filings with the Securities and Exchange Commission (“SEC”), including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports. Also posted on the Company’s website, and available in print upon request, are charters of each committee of the Board of Trustees, the Company’s code of business conduct and ethics, the Company’s corporate governance guidelines and the trustee independence standards. Within the time period required by the SEC, the Company will disclose on its website any amendment to the code of business conduct or ethics or any waiver applicable to any executive officer, trustee or senior financial officer of any provision of the code of business conduct and ethics that would otherwise be required to be disclosed under the rules of the SEC or New York Stock Exchange (“NYSE”). The information contained on, or otherwise accessible through, the Company’s website is not incorporated into, and does not form a part of, this report or any other report or document we file with or furnish to the SEC.

Strategies and Objectives

The Company’s primary objectives are to provide income to its shareholders through increases in distributable cash flow and to increase long-term total returns to shareholders through appreciation in the value of its common shares of beneficial interest. To achieve these objectives, the Company seeks to:

- enhance the return from, and the value of, the hotels in which it owns interests and any additional hotels the Company may acquire or develop; and

- invest in or acquire additional hotel properties on favorable terms.

The Company seeks to achieve revenue growth principally through:

renovations, repositionings and/or expansions at selected hotels;

acquisitions of full-service hotels located in convention, resort and major urban markets in the United States,
especially upscale and luxury full-service hotels in such markets where the Company perceives strong demand growth
or significant barriers to entry;

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selective development of hotel properties, particularly upscale and luxury full-service hotels in high barrier-to-entry and high demand markets where development economics are favorable; and

revenue enhancing programs at the hotels.

The Company intends to acquire additional hotels in urban, convention and resort markets, consistent with the growth strategies outlined above and which may:

- possess unique competitive advantages in the form of location, physical facilities or other attributes;
- be available at significant discounts to replacement cost, including when such discounts result from reduced competition for hotels with long-term management and/or franchise agreements;

benefit from brand or franchise conversion or removal, new management, renovations or redevelopment or other active and aggressive asset management strategies; or

have expansion opportunities.

The Company continues to focus on eight primary urban markets; however, it will acquire assets in other markets if the investment is consistent with the Company's strategies and return criteria. The primary urban markets are:

- Boston • San Diego
- Chicago • San Francisco
- Los Angeles • Seattle
- New York • Washington, DC

Hotel Managers and Hotel Management Agreements

The Company seeks to grow through strategic relationships with premier, internationally recognized hotel operating companies, including Hilton Hotels Corporation, Marriott International, Outrigger Lodging Services, Noble House Hotels & Resorts, Hyatt Hotels Corporation, Benchmark Hospitality, Two Roads Hospitality, Davidson Hotel Company, Kimpton Hotel & Restaurant Group, LLC, Accor, HEI Hotels & Resorts, JRK Hotel Group, Inc., Viceroy Hotel Group, Highgate Hotels, Access Hotels & Resorts and Provenance Hotels. The Company believes that having multiple operators creates a network that will generate acquisition opportunities. In addition, the Company believes its acquisition capabilities are enhanced by its considerable experience, resources and relationships in the hotel industry specifically and the real estate industry generally.

As of December 31, 2016, all of our 46 hotels are leased by LHL, and are managed and operated by third parties pursuant to management agreements entered into between LHL and the respective hotel management companies. Our management agreements for the 46 hotels leased to LHL have the terms described below.

Base Management Fees. Our management agreements generally provide for the payment of base management fees between 1.0% and 4.0% of the applicable hotel's revenues or a fixed amount, as determined in the agreements.

Incentive Management and Other Fees. Some of our management agreements provide for the payment of incentive management fees between 10.0% and 20.0% of gross operating profit or as a percentage of, or in excess of, certain thresholds of net operating income or cash flow of the applicable hotel, if certain criteria are met. Certain of the management agreements also provide for the payment by us of sales and marketing, accounting and other fees.

Terms. The remaining terms of our management agreements range from less than one year to 15 years not including renewals, and less than one year to 45 years including renewals. Only one management agreement has a remaining non-cancelable term of 15 years, with the next longest non-cancelable term of 12 years.

Ability to Terminate. We have 45 management agreements (Park Central Hotel New York and WestHouse Hotel New York operate under one agreement) of which 41 are terminable at will and one is terminable upon sale. The remaining three management agreements are terminable only with cause or after certain anniversary dates.

Termination fees range from zero to up to eight times annual base management and incentive management fees, due

upon early termination. Two management agreements have termination fees at eight times, one at seven times, one at six times and one at five times; with the next highest at two times annual base management and incentive management fees.

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Operational Services. Each manager has exclusive authority to supervise, direct and control the day-to-day operation and management of the respective hotel including establishing all room rates, processing reservations, procuring inventories, supplies and services, and preparing public relations, publicity and marketing plans for the hotel.

Executive Supervision and Management Services. Each manager supervises all managerial and other employees, reviews the operation and maintenance, prepares reports, budgets and projections, and provides other administrative and accounting support services to the respective hotel.

Chain Services. Our management agreements with major brands require the managers to furnish chain services that are generally made available to other hotels managed by such managers. Such services may, for example, include: (1) the development and operation of computer systems and reservation services; (2) management and administrative services; (3) marketing and sales services; (4) human resources training services and (5) such additional services as may from time to time be more efficiently performed on a national, regional or group level.

Working Capital. Our management agreements typically require us to maintain working capital for a hotel and to fund the cost of supplies such as linen and other similar items. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from the hotel operations are insufficient to meet the financial requirements of the hotel.

Furniture, Fixtures and Equipment Replacements. We are required to provide to the managers all the necessary furniture, fixtures and equipment for the operation of the hotels (including funding any required furniture, fixtures and equipment replacements). Our management agreements generally provide that once each year the managers will prepare a list of furniture, fixtures and equipment to be acquired and certain routine repairs to be performed in the next year and an estimate of funds that are necessary therefore, subject to our review and approval. For purposes of funding the furniture, fixtures and equipment replacements, a specified percentage of the gross revenues of each hotel (typically 4.0%) is either deposited by the manager in an escrow account or held by the owner.

Building Alterations, Improvements and Renewals. Our management agreements generally require the managers to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of the hotels. In addition to the foregoing, the management agreements generally provide that the managers may propose such changes, alterations and improvements to the hotels as required by reason of laws or regulations or, in each manager's reasonable judgment, to keep each respective hotel in a safe, competitive and efficient operating condition.

Sale of a Hotel. Four of our management agreements limit our ability to sell, lease or otherwise transfer a hotel, unless the transferee assumes the related management agreement and meets specified other conditions and/or unless the transferee is not a competitor of the manager.

Service Marks. During the term of our management agreements, the service mark, symbols and logos currently used by the managers may be used in the operation of the hotels. Any right to use the service marks, logo and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the management agreement with respect to such hotel.

Recent Developments

On January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan (as defined in the "Term Loans" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations"). The \$750.0 million senior unsecured credit facility has a revised accordion feature which, subject to certain terms and conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$1.25 billion. The new maturity date is January 8, 2021, subject to two six-month extension options, pursuant to certain terms and conditions, including payment of an extension fee. Borrowings bear interest at variable rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. The \$300.0 million First Term Loan includes an accordion feature, which subject to certain terms and conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$500.0 million. The First Term Loan matures on January 10,

2022 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements) through August 2, 2017.

On January 10, 2017, the Company amended and restated its \$555.0 million Second Term Loan (as defined in the "Term Loans" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations") to match

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the financial and other covenants in its refinanced First Term Loan and senior unsecured credit facility. There were no changes to the maturity date or the accordion feature. The Second Term Loan bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements) through May 16, 2019 for \$177.5 million of the Second Term Loan and through January 29, 2021 for the remaining \$377.5 million of the Second Term Loan.

Additionally, LHL refinanced its unsecured revolving credit facility with no change in capacity of \$25.0 million, on similar terms as the senior unsecured credit facility. The new maturity date is January 10, 2021, subject to two six-month extension options, pursuant to certain terms and conditions, including payment of an extension fee.

On January 19, 2017, the Company sold Hotel Deca for \$55.0 million. The Company will recognize a gain in the first quarter of 2017 of approximately \$30.5 million related to the sale of this property. The proceeds will be used for general corporate purposes.

In February 2017, the Company's Board of Trustees authorized an expansion of the Repurchase Program (as defined in the "Equity Redemptions, Repurchases and Issuances" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations") to acquire up to an additional \$500.0 million of the Company's common shares of beneficial interest. Including the previous authorization, the Company now has availability under the Repurchase Program to acquire up to \$569.8 million of common shares of beneficial interest as of February 22, 2017.

Hotel Renovations

The Company believes that its regular program of capital improvements at the hotels, including replacement and refurbishment of furniture, fixtures and equipment, helps maintain and enhance its competitiveness and maximize revenue growth.

Joint Venture

The Company holds a 99.99% controlling interest in The Liberty Hotel. Since the Company holds a controlling interest, the accounts of the joint venture have been included in the consolidated financial statements. The 0.01% interest of the outside partner is included in noncontrolling interests in consolidated entities in the consolidated balance sheets.

Tax Status

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. As a result, the Company generally is not subject to corporate income tax on that portion of its net income that is currently distributed to shareholders. A REIT is subject to a number of highly technical and complex organizational and operational requirements, including requirements with respect to the nature of its gross income and assets and a requirement that it currently distribute at least 90% of its taxable income. The Company may, however, be subject to certain state and local taxes on its income and property.

Effective January 1, 2001, the Company elected to operate its wholly owned subsidiary, LHL, as a TRS. Accordingly, LHL is required to pay corporate income taxes at the applicable rates.

Seasonality

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

Competition

The hotel industry is highly competitive. Each of the hotels is located in a developed area that includes other hotel properties as well as alternative lodging companies. The number of competitive hotel properties in a particular area could have a material adverse effect on occupancy, average daily rate ("ADR") and room revenue per available room ("RevPAR") at the Company's current hotels or at hotels acquired in the future. In addition, the Company may be competing for investment opportunities with entities that have substantially greater financial resources than the Company. These entities may generally be able to accept more risk than the Company can prudently manage, including risks with respect to the amount of leverage utilized, creditworthiness of a hotel operator or the geographic proximity of its investments. Competition may generally reduce the number of suitable investment opportunities offered to the Company and increase the bargaining power of property owners seeking to sell.

Environmental Matters

In connection with the ownership of hotels, the Company is subject to various federal, state and local laws, ordinances and regulations relating to environmental protection. Under these laws, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in such property. Such laws

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often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. In addition, the presence of contamination from hazardous or toxic substances, or the failure to remediate such contaminated property properly, may adversely affect the owner's ability to borrow using such property as collateral. Furthermore, a person who arranges for the disposal or treatment of a hazardous or toxic substance at a property owned by another, or who transports such substance to or from such property, may be liable for the costs of removal or remediation of such substance released into the environment at the disposal or treatment facility. The costs of remediation or removal of such substances may be substantial, and the presence of such substances may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral. In connection with the ownership of hotels, the Company may be potentially liable for such costs. The Company believes that its hotels are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on the Company. The Company has not received verbal or written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of the properties currently under its ownership.

Employees

The Company had 35 employees as of February 15, 2017. All persons employed in the day-to-day operations of the hotels are employees of the management companies engaged by the lessees to operate such hotels. None of the Company's employees is a member of any union; however, some employees of the hotel managers at several of the Company's hotels are currently represented by labor unions and are subject to collective bargaining agreements.

Additional Information

All reports filed with the SEC may also be read and copied at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Further information regarding the operation of the public reference room may be obtained by calling 1-800-SEC-0330. In addition, all of our filed reports can be obtained at the SEC's website at www.sec.gov or through the Company's website at www.lasallehotels.com. The information contained on, or otherwise accessible through, the Company's website is not incorporated into, and does not form a part of, this report or any other report or document we file with or furnish to the SEC.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not currently known to the Company or that it may currently deem immaterial also may materially adversely affect the Company. The risks described could adversely affect the Company's business, financial condition, liquidity, results of operations, cash flows, prospects or ability to make distributions to shareholders, any of which could adversely affect the trading price of the Company's shares.

Risks Related to Our Business and the Lodging Industry

Economic conditions may reduce demand for hotel properties and adversely affect our profitability.

The performance of the lodging industry is highly cyclical and has traditionally been closely linked with the performance of the general economy and, specifically, growth in the U.S. gross domestic product ("GDP"), employment and investment and travel demand. We cannot predict the pace or duration of the global economic cycle or the cycles of the lodging industry. In the event conditions in the industry deteriorate or do not continue to see sustained improvement, or there is an extended period of economic weakness, our occupancy rates, revenues and profitability could be adversely affected. In addition, other macroeconomic factors, such as consumer confidence and conditions which negatively shape public perception of travel, may have a negative effect on the lodging industry and may adversely affect our business.

Furthermore, all of our hotels are classified as luxury, upper upscale or upscale. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. This characteristic may result from the fact that upper upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. In addition, in periods of weak demand, as may occur

during a general economic recession, profitability is negatively affected by the relatively high fixed costs of operating luxury, upper upscale and upscale hotels. Consequently, any uncertainty in the general economic environment could adversely affect our business.

In addition, on June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union (“Brexit”). Negotiations are expected to commence to determine the future terms of the United Kingdom’s relationship

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with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others we cannot anticipate, may have a negative effect on the lodging industry and may adversely affect our business.

We will be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.

We focus on primary urban markets, including Boston, MA, Chicago, IL, Los Angeles, CA, New York, NY, San Diego, CA, San Francisco, CA, Seattle, WA and Washington, DC. As of December 31, 2016, our hotels were located in 13 markets in nine states and the District of Columbia, including nine hotels located in Washington, DC, seven hotels located in San Francisco, CA, six hotels located in Los Angeles, CA, five hotels located in San Diego, CA and four hotels located in both Boston, MA and New York, NY. As a result, we are particularly susceptible to adverse market conditions in these geographic areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could adversely affect us.

The return on our hotels depends upon the ability of the hotel operators to operate and manage the hotels.

To maintain our status as a REIT, we are not permitted to operate any of our hotels. As a result, we are unable to directly implement strategic business decisions with respect to the daily operation and marketing of our hotels, such as decisions with respect to the setting of room rates, repositioning of a hotel, food and beverage pricing and certain similar matters. Although LHL consults with the hotel operators with respect to strategic business plans, the hotel operators are under no obligation to implement any of our recommendations with respect to such matters. Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, RevPAR, ADR or operating profits, we may not have sufficient rights under our hotel operating agreements to enable us to force the hotel operator to change its method of operation. We generally can only seek redress if a hotel operator violates the terms of the applicable operating agreement, and then only to the extent of the remedies provided for under the terms of the agreement. Some of the operating agreements have lengthy terms and may not be terminable by us before the agreement's expiration. In the event that we are able to and do replace any of our hotel operators, we may experience significant disruptions at the affected hotels, which may adversely affect our ability to make distributions to our shareholders.

Our hotels are subject to significant competition.

The markets where our hotels are located and the luxury, upper upscale and upscale segments of the hotel business are highly competitive. Our hotels compete on the basis of location, room rates, quality, service levels, reputation, reservations systems and supply and availability of alternative lodging, among many factors. There are many competitors in the luxury, upper upscale and upscale segments in our markets, and many of these competitors may have substantially greater marketing and financial resources than we have. Furthermore, in addition to competing with traditional hotels and lodging facilities, we compete with alternative lodging companies, such as HomeAway and Airbnb, which operate websites that market available furnished, privately-owned residential properties, including homes and condominiums, that can be rented on a nightly, weekly or monthly basis. This competition could reduce occupancy levels and room revenue at our hotels, which would harm our operations. In addition, over-building in the hotel industry may increase the number of rooms available and may decrease occupancy and room rates, which can quickly destabilize a market and existing hotels can experience rapidly decreasing RevPAR and profitability. If such over-building occurs in one or more of our markets, our business, financial condition, results of operations and ability to make distributions to our shareholders could be materially adversely affected.

Our performance and our ability to make distributions to our shareholders are subject to risks associated with the hotel industry.

Competition for guests, increases in operating costs, dependence on travel and poor economic conditions could adversely affect our cash flow. Our hotel properties have different economic characteristics than many other real estate assets. A typical office REIT, for example, has long-term leases with third-party tenants, which provide a relatively stable long-term stream of revenue. On the other hand, virtually all hotel guests stay at a hotel for only a few nights at a time, so the rate and occupancy at each of our hotels changes every day. As a result, we may have highly volatile earnings.

In addition, our hotels are subject to all operating risks common to the hotel industry, many of which are beyond our control. These risks include:

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adverse effects of weak national, regional and local economic conditions;

tightening credit standards;

competition for guests and meetings from other hotels and alternative lodging companies, including competition and pricing pressure from Internet wholesalers and distributors;

an over-supply or over-building of hotels in the markets in which we own properties;

increases in operating costs, including wages, benefits, insurance, property taxes and energy, due to inflation and other factors, which may not be offset in the future by increased room rates;

labor strikes, disruptions or lockouts that may impact operating performance;

dependence on demand from business and leisure travelers, which may fluctuate and be seasonal;

increases in energy costs, airline fares and other expenses related to travel, which may negatively affect traveling;

terrorism, terrorism alerts and warnings, military actions, pandemics or other medical events which may cause decreases in business and leisure travel; and

changes in governmental laws and regulations, local policies and zoning ordinances and the related costs of compliance.

These factors could adversely affect the ability of the hotel operators to generate revenues which could adversely affect LHL's ability to make rental payments to the Operating Partnership pursuant to the participating leases and ultimately impact our liquidity.

Unexpected capital expenditures could adversely affect our cash flow. Hotels require ongoing renovations and other capital improvements, including periodic replacement or refurbishment of furniture, fixtures and equipment. Under the terms of our leases, we are obligated to pay the cost of certain capital expenditures at the hotels, including new brand standards, and to pay for periodic replacement or refurbishment of furniture, fixtures and equipment. If capital expenditures exceed expectations, there can be no assurance that sufficient sources of financing will be available to fund such expenditures.

In addition, we have acquired hotels that have undergone significant renovation and may acquire additional hotels in the future that require significant renovation. Renovations of hotels involve numerous risks, including the possibility of environmental problems, construction cost overruns and delays, the effect on current demand, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other hotels.

We may not be able to fund capital improvements solely from cash provided from our operating activities because we generally must distribute at least 90% of our REIT taxable income each year to maintain our REIT tax status. As a result, our ability to fund capital expenditures or investments through retained earnings, is very limited. Consequently, we may rely upon the availability of debt or equity capital to fund our investments and capital improvements. These sources of funds may not be available on reasonable terms or conditions.

The seasonality of the lodging industry may cause fluctuations in our quarterly revenues. The lodging industry is seasonal in nature. This seasonality can be expected to cause quarterly fluctuations in our revenues. Our quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors.

The increasing use of Internet travel intermediaries by consumers may reduce our revenues. Some of our hotel rooms are booked through Internet travel intermediaries, such as Travelocity.com, Expedia.com and Priceline.com. As bookings through these intermediaries increase, these intermediaries may be able to obtain higher commissions,

reduced room rates or other significant contract concessions from the management companies that operate the hotels we own and acquire. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality (such as “three-star downtown hotel”), at the expense of brand identification or quality of product or service. These intermediaries hope that consumers will eventually develop brand loyalties to their reservations system rather than to lodging brands or properties. If the amount of bookings made through Internet travel intermediaries proves to be more significant than we expect, profitability may be lower than expected.

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Terrorist attacks, natural disasters, significant military actions, outbreaks of contagious diseases, travel restrictions or other events could adversely affect travel and hotel demand.

We own hotels in metropolitan markets that have been, or may in the future be, targets of actual or threatened terrorist attacks, including Boston, MA, Chicago, IL, New York, NY and Washington, DC. Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. In addition, we own 21 hotels located in areas of the West Coast that are seismically active and two hotels (Southernmost Beach Resort Key West and The Marker Waterfront Resort) in areas that have the potential to experience hurricanes. Even in the absence of direct physical damage to our hotels, the occurrence of terrorist attacks, natural disasters, significant military actions, outbreaks of diseases, such as Ebola virus, H1N1 flu, SARS or Zika virus, or other casualty events, or significant government restrictions or limitations on travel to the United States will likely have a material adverse effect on business and commercial travelers and tourists, the economy generally and the hotel and tourism industries in particular.

We may not have enough insurance.

We carry comprehensive liability, fire, flood, earthquake, extended coverage and business interruption policies that insure us against losses with policy specifications and insurance limits that we believe are reasonable. There are certain types of losses, such as losses from environmental problems or terrorism, that management may not be able to insure against or may decide not to insure against since the cost of insuring is not economical. We may suffer losses that exceed our insurance coverage. Further, market conditions, changes in building codes and ordinances or other factors such as environmental laws may make it too expensive to repair or replace a property that has been damaged or destroyed, even if covered by insurance.

Because real estate investments are illiquid, we may not be able to sell hotels when desired.

Real estate investments generally cannot be sold quickly. We may not be able to vary our portfolio promptly in response to economic or other conditions. In addition, provisions of the Code limit a REIT's ability to sell properties in some situations when it may be economically advantageous to do so.

Liability for environmental matters could adversely affect our financial condition.

As an owner of real property, we are subject to various federal, state and local laws and regulations relating to the protection of the environment that may require a current or previous owner of real estate to investigate and clean-up hazardous or toxic substances at a property. These laws often impose such liability without regard to whether the owner knew of or caused the presence of the contaminants, and liability is not limited under the enactments and could exceed the value of the property and/or the aggregate assets of the owner. Persons who arrange for the disposal or treatment facility, whether or not such facility is owned or operated by the person, may be liable for the costs of removal or remediation of such substance released into the environment at the disposal or treatment facility. Even if more than one person were responsible for the contamination, each person covered by the environmental laws may be held responsible for the entire amount of clean-up costs incurred.

Environmental laws also govern the presence, maintenance and removal of asbestos-containing materials. These laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials. In connection with ownership (direct or indirect) of our hotels, we may be considered an owner or operator of properties with asbestos-containing materials. Having arranged for the disposal or treatment of contaminants, we may be potentially liable for removal, remediation and other costs, including governmental fines and injuries to persons and property. Our hotels may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic reactions. As a result, the presence of significant mold at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, the presence of significant mold could expose us to liability from

hotel guests, hotel employees and others if property damage or adverse health concerns arise.

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The costs of compliance with the ADA and other government regulations could adversely affect our cash flow. Under the ADA, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. A determination that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. If we are required to make substantial modifications to our hotels, whether to comply with ADA or other government regulation such as building codes or fire safety regulations, our financial condition, results of operations and ability to make distributions to our shareholders could be adversely affected. Certain leases and management agreements may constrain us from acting in the best interest of shareholders or require us to make certain payments.

The Hyatt Regency Boston Harbor, San Diego Paradise Point Resort and Spa, The Hilton San Diego Resort and Spa, The Roger, Viceroy Santa Monica, The Liberty Hotel, Harbor Court Hotel, Hotel Triton, Southernmost Beach Resort Key West (restaurant facility) and Hotel Vitale are each subject to a ground or land and building lease with a third-party lessor which requires us to obtain the consent of the relevant third party lessor in order to sell any of these hotels or to assign our leasehold interest in any of the ground or land and building leases. Accordingly, if we determine that the sale of any of these hotels or the assignment of our leasehold interest in any of these ground or land and building leases is in the best interest of our shareholders, we may be prevented from completing such a transaction if we are unable to obtain the required consent from the relevant lessor. Westin Copley Place is subject to an air rights lease and Hotel Solamar is subject to a ground lease, which do not require approval from the relevant third-party lessor. In addition, at any given time, potential investors may be disinterested in buying hotel properties subject to a ground lease and may pay a lower price for such properties than for a comparable property in fee simple, or they may not purchase such properties at any price whatsoever. For these reasons, we may have a difficult time selling a hotel property subject to a ground lease or may receive lower proceeds from a sale. Finally, as the lessee under our ground leases, we are exposed to the possibility of losing the hotel, or a portion of the hotel, upon termination, or an earlier breach by us, of the ground lease.

In some instances, we may be required to obtain the consent of the hotel operator or franchisor prior to selling the hotel. Typically, such consent is only required in connection with certain proposed sales, such as if the proposed purchaser is engaged in the operation of a competing hotel or does not meet certain minimum financial requirements. Some of our hotels are subject to rights of first offer which may adversely affect our ability to sell those properties on favorable terms or at all.

We are subject to a franchisor's or operator's right of first offer, in some instances, with respect to the Embassy Suites Philadelphia - Center City, Hilton San Diego Gaslamp Quarter, Park Central Hotel New York and WestHouse Hotel New York, Park Central San Francisco, The Hilton San Diego Resort and Spa, Westin Copley Place and Westin Michigan Avenue. These third-party rights may adversely affect our ability to timely dispose of these properties on favorable terms, or at all.

We may be unable to consummate acquisitions on advantageous terms or acquisitions may not perform as anticipated. In the ordinary course of our business and when our liquidity position permits, we consider acquisition opportunities. The acquisition of hotel properties involves risks, including the risk that the acquired hotel property will not perform as anticipated and the risk that any actual costs for rehabilitating, repositioning, renovating and improving identified in the pre-acquisition process will exceed estimates. Further, we face competition for attractive acquisition opportunities from other well-capitalized real estate investors, including both publicly-traded REITs and private institutional investment funds, and these competitors may have greater financial and other resources than we have.

We and our hotel managers rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. We and our hotel managers purchase some of such information technology from vendors, on whom our systems depend, and the hotel managers rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as individually identifiable information, including information relating to financial accounts. Although we and our hotel managers have taken

steps to protect the security of its information systems and the data maintained in those systems, these safety and security measures may not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information, such as in the event of cyber attacks, which are rapidly evolving and becoming increasingly sophisticated. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our or the hotel managers' information systems could interrupt our operations;

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damage our reputation; result in misstated financial reports, violations of loan covenants and/or missed reporting deadlines; result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT; require significant management attention and resources to remedy any damages that result; and subject us to liability claims or regulatory penalties.

We are subject to risks associated with the employment of hotel personnel, particularly with hotels that employ unionized labor.

Our third-party hotel managers are responsible for hiring and maintaining the labor force at each of our hotels. Although we do not directly employ or manage employees at our hotels, we are subject to the risks associated with the employment of hotel personnel, particularly at those hotels with unionized labor. From time to time, strikes, lockouts, public demonstrations or other negative actions and publicity may disrupt hotel operations. We also may incur increased legal costs and indirect labor costs as a result of contract disputes or other events. The resolution of labor disputes or new or re-negotiated labor contracts could lead to increased labor costs, either by increases in wages or benefits or by changes in work rules that raise hotel operating costs. Furthermore, labor agreements may limit the ability of the hotel managers to reduce the size of hotel workforces during an economic downturn because collective bargaining agreements are negotiated between the hotel managers and labor unions. We do not have the ability to control the outcome of these negotiations. In addition, we believe that unions are generally becoming more aggressive about organizing workers at hotels in certain locations. Potential labor activities at these hotels could significantly increase the administrative, labor and legal expenses of the third-party management companies operating these hotels and reduce the profits that we receive.

In addition, several local jurisdictions in the United States have enacted, or considered, legislation increasing the minimum wage for workers in the jurisdiction. Some of this legislation applies to hotels only. If a jurisdiction in which we own a hotel adopts such legislation, then the cost to operate the hotel may increase significantly.

Investments in hotel-related mortgage assets, including mezzanine loans, subject us to the risk of loss.

We may originate or acquire hotel-related mortgage assets, including mezzanine loans. Investments in real estate mortgages and subordinated real estate loans are subject to the risk that one or more borrowers may default and that the collateral securing mortgages may not be sufficient or, in the case of subordinated mezzanine loans, available to enable us to recover our full investment in these loans.

Property ownership through partnerships and joint ventures could limit our control of those investments.

Partnership or joint venture investments may involve risks not otherwise present for investments made solely by us, including among others, the possibility that our co-investors might become bankrupt, might at any time have goals or interests that are different from ours because of disparate tax consequences or otherwise, and may take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT. Other risks of joint venture investments include an impasse on decisions, such as a sale, because neither our co-investors nor we would have full control over the partnership or joint venture. There is no limitation under our organizational documents as to the amount of funds that may be invested in partnerships or joint ventures.

Our cash and cash equivalents are maintained in a limited number of financial institutions and the funds in those institutions may not be fully or federally insured.

We maintain cash balances in a limited number of financial institutions. Our cash balances are generally in excess of federally insured limits. The failure or collapse of one or more of these financial institutions may materially adversely affect our ability to recover our cash balances.

Risks Related to Our Debt and Financing

If we cannot obtain financing, our growth will be limited.

To qualify for taxation as a REIT, we are required to distribute at least 90% percent of our REIT taxable income each year to our shareholders and we generally expect to make distributions in excess of such amount. As a result, our ability to retain earnings to fund acquisitions, redevelopment and development or other capital expenditures is and will continue to be limited. Although our business strategy contemplates future access to debt financing (in addition to our senior unsecured credit facility) to fund acquisitions, redevelopment, development, return on investment initiatives and working capital requirements, there can be no assurance that we will be able to obtain such financing on favorable terms or at all. Events in the financial markets have adversely impacted the credit markets, and they may do so in the

future, and, as a result, credit can become significantly more expensive and difficult to obtain, if available at all. Tightening credit markets may have an adverse effect on our ability to obtain financing on favorable terms, if at all, thereby increasing financing costs and/or requiring us to accept financing with increased

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restrictions and/or significantly higher interest rates. If adverse conditions in the credit markets materially deteriorate, our business could be materially and adversely affected. Our long-term ability to grow through investments in hotel properties will be limited if we cannot obtain additional financing.

Our obligation to comply with financial covenants in our unsecured credit facilities, term loans and mortgages on some of our hotel properties could impact our operations, may require us to liquidate our properties and could adversely affect our ability to make distributions to our shareholders.

Unsecured credit facilities and term loans. We currently have (i) a \$750.0 million senior unsecured credit facility (with an accordion feature that allows us to request an increase in the total commitments of up to \$1.25 billion, subject to certain terms and conditions) that matures on January 8, 2021, subject to two six-month extension options to January 8, 2022 that we may exercise pursuant to certain terms and conditions, including the payment of an extension fee, (ii) a \$300.0 million unsecured term loan (with an accordion feature that allows us to request an increase in the total commitments of up to \$500.0 million, subject to certain terms and conditions) that matures on January 10, 2022, and (iii) a \$555.0 million unsecured term loan (with an accordion feature that allows us to request an increase in the total commitments of up to \$700.0 million, subject to certain terms and conditions) that matures on January 29, 2021. In addition, LHL has a \$25.0 million unsecured revolving credit facility that matures on January 10, 2021, subject to two six-month extension options to January 10, 2022 that LHL may exercise pursuant to certain terms and conditions, including the payment of an extension fee.

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

Each of the senior unsecured credit facility, the term loans and the LHL unsecured revolving credit facility contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the senior unsecured credit facility and term loans, if a default or event of default occurs and is continuing, we may be precluded from paying certain distributions or other payments to our shareholders. The senior unsecured credit facility and term loans also contain cross-default provisions that allow the lenders under the credit facility and term loans to stop future extensions of credit and/or accelerate the maturity of any outstanding principal balances under the credit facility or term loans if we are in default under certain other debt obligations, including our non-recourse secured mortgage indebtedness.

If we violate the financial covenants in our credit facilities or term loans, we could be required to repay all or a portion of our indebtedness with respect to such credit facility or term loan before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, or at all. Moreover, if we are unable to refinance our debt on acceptable terms, including at maturity of our credit facilities and term loans, we may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. Failure to comply with our financial covenants contained in our credit facilities and term loans, or our non-recourse secured mortgages described below, could result from, among other things, changes in our results of operations, the incurrence of additional debt or changes in general economic conditions.

Non-recourse secured mortgages. In addition to our senior unsecured credit facility, our term loans and the LHL unsecured revolving credit facility, we have from time to time entered into non-recourse mortgages secured by specific hotel properties. Under the terms of these debt obligations, a lender's only remedy in the event of default is against the real property securing the mortgage, except where a borrower has, among other customary exceptions, engaged in an action constituting fraud or an intentional misrepresentation. In those cases, a lender may seek a remedy for a breach directly against the borrower, including its other assets. Westin Copley Place is mortgaged to secure payment of indebtedness aggregating \$225.0 million as of December 31, 2016. The Hyatt Regency Boston Harbor is mortgaged to secure payment of principal and interest on bonds with an aggregate par value of \$42.5 million. These mortgages contain debt service coverage tests related to the mortgaged properties. If the debt service coverage ratio

for that specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel will automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows will be directed to the lender (“cash trap”) until such time as we again become compliant with the specified debt service coverage ratio or the mortgage is paid off.

If we are unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to us. We may also elect to sell the property, if we are able to

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sell the property, for a loss in advance of a foreclosure or other transfer. An event of default under our non-recourse secured mortgage may also constitute an event of default under our senior unsecured credit facility or term loans.

As of December 31, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage.

Our liquidity may be reduced and our cost of debt financing may be increased because we may be unable to, or elect not to, remarket debt securities related to the Hyatt Regency Boston Harbor for which we may be liable.

We are the obligor with respect to a \$37.1 million tax-exempt special project revenue bond and a \$5.4 million taxable special project revenue bond, both issued by the Massachusetts Port Authority (collectively, the “Massport Bonds”). The Massport Bonds, which mature on March 1, 2018, bear interest based on weekly floating rates and have no principal reductions prior to their scheduled maturities. The Massport Bonds may be redeemed at any time, at our option, without penalty. U.S. Bank National Association (“U.S. Bank”) provides the supporting letters of credit on the Massport Bonds. The letters of credit expire on September 30, 2017. The letters of credit have a remaining one-year extension option that we may exercise at our option, subject to certain terms and conditions, and are secured by the Hyatt Regency Boston Harbor. The letters of credit cannot be extended beyond the Massport Bonds’ maturity date. If U.S. Bank fails to renew its letters of credit at expiration and an acceptable replacement provider cannot be found, we may be required to pay off the bonds. If we are unable to, or elect not to, issue or remarket the Massport Bonds, we would expect to rely primarily on our available cash and credit facilities to pay off the Massport Bonds. At certain times, we may hold some of the Massport Bonds that have not been successfully remarketed. Our borrowing costs under our senior unsecured credit facility may be higher than tax-exempt bond financing costs. Borrowings under the credit facilities to pay off the Massport Bonds would also reduce our liquidity to meet other obligations.

Increases in interest rates may increase our interest expense.

As of December 31, 2016, \$267.5 million of aggregate indebtedness (23.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under our term loans since we hedged their variable interest rates to fixed interest rates. In addition, the First Term Loan and \$177.5 million of the Second Term Loan will bear interest at their contractual floating rates when the applicable interest rate swaps expire on August 2, 2017 and May 16, 2019, respectively. An increase in interest rates could increase our interest expense and reduce our cash flow and may affect our ability to make distributions to shareholders and to service our indebtedness.

There is refinancing risk associated with our debt.

Our typical debt contains limited principal amortization; therefore, the vast majority of the principal must be repaid at the maturity of the loan in a so-called “balloon payment.” In the event that we do not have sufficient funds to repay the debt at the maturity of these loans, we will need to refinance this debt. If the credit environment is constrained at the time of our debt maturities, we would have a very difficult time refinancing debt. In addition, we locked in our fixed-rate debt at a point in time when we were able to obtain favorable interest rates, principal amortization and other terms. When we refinance our debt, prevailing interest rates and other factors may result in paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our cash available for distribution to our shareholders. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more hotels on disadvantageous terms, including unattractive prices or defaulting on the mortgage and permitting the lender to foreclose.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on our shareholders’ investment.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot provide

assurance that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses that may reduce the overall return on our shareholders' investment.

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Risks Related to Our Status as a REIT

Failure to qualify as a REIT would be costly.

We have operated, and intend to continue to operate, in a manner that we believe allows us to qualify as a REIT under the Code beginning with our taxable year ended December 31, 1998. No assurance can be given, however, that we will in fact qualify or remain qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex provisions of the Code. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Moreover, new tax legislation, administrative guidance or court decisions, potentially applicable with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT or could increase our tax liability or reduce our operating flexibility.

For example, among other risks, we would fail to qualify as a REIT if

- our hotel managers do not qualify as “eligible independent contractors” under the Code,
- the leases of our hotel properties to LHL are not respected as true leases for federal income tax purposes, or
- the Operating Partnership failed to qualify as a partnership for federal income tax purposes (which would cause it to become subject to federal and state corporate income tax and would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us).

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions, we also will be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would cause us to incur additional tax liabilities, significantly impair our ability to service indebtedness and reduce the amount of cash available to make new investments or to make distributions on our common or preferred shares.

The Operating Partnership owns 100% of the common shares of a subsidiary REIT that elected to be taxed as a REIT under the Code. If our subsidiary REIT were to fail to qualify as a REIT, then our subsidiary REIT would become subject to additional federal income tax and we could in turn fail to qualify as a REIT, unless we could avail ourselves of certain relief provisions.

Complying with REIT requirements may cause us to forego otherwise attractive business opportunities or liquidate otherwise attractive investments and may limit our ability to hedge our liabilities effectively and cause us to incur tax liabilities.

To meet the tests applicable to REITs, we may be required to forego or exit investments we might otherwise make or hold. The REIT provisions of the Code also limit our ability to hedge our liabilities. To the extent that we enter into hedging transactions (other than certain transactions to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets), the income from those transactions is likely to be treated as non-qualifying income for purposes of gross income tests applicable to REITs. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could expose us to greater risks associated with changes in interest rates than we would otherwise want to bear or increase the cost of our hedging activities because our TRS would be subject to tax on gains.

Our ownership of TRSs involves additional regulation and tax, and our transactions with TRSs will subject us to a 100% penalty tax on certain income or deductions if the transactions are not conducted on arm’s-length terms.

A REIT may own up to 100% of the stock of one or more TRSs, and a TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. TRSs involve additional regulation, including a rule that no more than 25% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs. Another rule imposes a 100% excise tax on certain transactions between a TRS and its parent REIT not conducted on an arm’s-length basis. TRSs are also subject to applicable federal, foreign, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability and reduce our operating flexibility.

At any time, the federal income tax laws governing REITs or the administrative and judicial interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative and judicial interpretation, or any amendment to any existing federal income tax law, regulation or administrative or judicial interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. Any

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adverse laws, regulations or interpretations could increase our tax liability, reduce our operating flexibility, or negatively affect our ability to qualify as a REIT, or may reduce the relative attractiveness of an investment in a REIT compared to other entities and corporations not qualified as a REIT.

Risks Related to Our Organization and Structure

Our organizational documents and agreements with our executives and applicable Maryland law contain provisions that may delay, defer or prevent change of control transactions and may prevent shareholders from realizing a premium for their shares.

Our trustees may only be removed for cause and remaining trustees may fill board vacancies. Our declaration of trust provides that our trustees may only be removed for cause by the affirmative vote of the holders of a majority of our outstanding common shares. Our declaration of trust and bylaws also provide that a majority of the remaining trustees may fill any vacancy on the Board of Trustees and that only the Board of Trustees may increase or decrease the number of persons serving on the Board of Trustees. These provisions effectively preclude shareholders from removing incumbent trustees, except for cause after a majority affirmative vote, and filling the vacancies created by such removal with their own nominees. Furthermore, we have not adopted trustee term limits or a mandatory retirement age for trustees, which may delay board rejuvenation and the rotation of trustees.

Our Board of Trustees may approve the issuance of shares with terms that may discourage a third party from acquiring the Company. Subject to the rights of holders of outstanding preferred shares to approve the classification or issuance of any class or series of shares ranking senior to such preferred shares, our Board of Trustees has the power under the declaration of trust to classify any of our unissued preferred shares, and to reclassify any of our previously classified but unissued preferred shares from time to time, in one or more series of preferred shares, without shareholder approval. Subject to the rights of holders of outstanding preferred shares discussed above, our Board of Trustees may determine the relative rights, preferences and privileges of any class or series of preferred shares issued. The issuance of preferred shares could adversely affect the voting power, dividend and other rights of holders of common shares and could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our shareholders.

Our declaration of trust prohibits ownership of more than 9.8% of the common shares or 9.8% of any series of preferred shares. To qualify as a REIT under the Code, no more than 50% of the value of our outstanding shares may be owned, directly or under applicable attribution rules, by five or fewer individuals (as defined to include certain entities) during the last half of each taxable year. To assist us in qualifying as a REIT, among other reasons, our declaration of trust generally prohibits direct or indirect ownership by any person of (i) more than 9.8% of the number or value (whichever is more restrictive) of the outstanding common shares or (ii) more than 9.8% of the number or value (whichever is more restrictive) of the outstanding shares of any class or series of preferred shares. Generally, shares owned by affiliated owners will be aggregated for purposes of the ownership limitation. Unless the ownership limit has been waived by our Board of Trustees, any transfer of shares that would violate the ownership limitation will result in the shares that would otherwise be held in violation of the ownership limit being designated as “shares-in-trust” and transferred automatically to a charitable trust effective on the day before the purported transfer or other event giving rise to such excess ownership. The intended transferee will acquire no rights in such shares. Our Board of Trustees, in its sole discretion, may exempt a proposed transferee from the ownership limits, subject to conditions and limitations and the receipt by our Board of Trustees of certain representations and undertakings. Our Board of Trustees has granted ownership limit waivers to certain shareholders. During the time that such waivers are effective, each excepted holder will be subject to an increased ownership limit. As a condition to granting such waivers, the excepted holders were required to make representations and warranties to us, which are intended to ensure that we will continue to meet the REIT ownership requirements. If any of these representations becomes untrue or is violated, such excepted holder will lose its exemption from the ownership limits.

The Maryland Business Combination Statute applies to us. A Maryland “business combination” statute contains provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the shareholder becomes an interested stockholder, and thereafter impose special shareholder voting requirements on these combinations.

Our Board of Trustees may choose to subject us to the Maryland Control Share Act. A Maryland law known as the “Maryland Control Share Act” provides that “control shares” of a company (defined as shares which, when aggregated with other shares controlled by the acquiring shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by the company’s shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares. Our bylaws currently provide that we are not subject to these provisions. However, the Board of Trustees, without shareholder approval, may repeal this bylaw and cause us to become subject to the Maryland Control Share Act.

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Other provisions of our organization documents may delay or prevent a change of control of the Company. Among other provisions, our organizational documents provide that the number of trustees constituting the full Board of Trustees may be fixed only by the trustees and that a special meeting of shareholders may not be called by holders of common shares holding less than a majority of the outstanding common shares entitled to vote at such meeting. Our executive officers have agreements that provide them with benefits in the event of a change in control of the Company. We entered into agreements with our executive officers that provide them with severance benefits if their employment ends under certain circumstances within one year following a “change in control” of the Company (as defined in the agreements) or if the executive officer resigns for “good reason” (as defined in the agreements). These benefits could increase the cost to a potential acquirer of the Company and thereby prevent or deter a change in control of the Company that might involve a premium price for the common shares or otherwise be in our shareholders’ best interests.

We depend on the efforts and expertise of our key executive officers and would be adversely affected by the loss of their services.

We depend on the efforts and expertise of our President and Chief Executive Officer, as well as our other executive officers, to execute our business strategy. The loss of their services, and our inability to find suitable replacements, would have an adverse effect on our business.

We may change our operational policies, investment guidelines and investment and growth strategies without shareholder approval, which may subject us to different and more significant risks in the future.

Our Board of Trustees determines our operational policies, investment guidelines and investment and growth strategies. Our Board of Trustees may make changes to, or approve transactions that deviate from, those policies, guidelines and strategies without a vote of, or notice to, our shareholders. This could result in us conducting operational matters, making investments or pursuing different investment or growth strategies than those contemplated in this Annual Report on Form 10-K. Under any of these circumstances, we may expose ourselves to different and more significant risks in the future, which could materially and adversely affect us.

A large number of shares available for future sale could adversely affect the market price of our common shares and may be dilutive to current shareholders.

The sales of a substantial number of our common shares, or the perception that such sales could occur, could adversely affect prevailing market prices for our common shares. As of December 31, 2016, there were 200,000,000 common shares authorized under our declaration of trust, as amended, of which 113,088,074 were outstanding. Our Board of Trustees may authorize the issuance of additional authorized but unissued common shares or other authorized but unissued securities at any time, including pursuant to our 2014 Equity Incentive Plan, as amended. We also have filed a registration statement with the SEC allowing us to offer, from time to time, an indefinite amount of equity securities (including common or preferred shares) on an as-needed basis and subject to our ability to affect offerings on satisfactory terms based on prevailing conditions. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including issuances of common and preferred equity. No prediction can be made about the effect that future distributions or sales of our common shares will have on the market price of our common shares.

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

Our Board of Trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2016, 2,750,000 shares of our 7.5% Series H Cumulative Redeemable Preferred Shares (the “Series H Preferred Shares”), 4,400,000 shares of our 6.375% Series I Cumulative Redeemable Preferred Shares (the “Series I Preferred Shares”) and 6,000,000 shares of our 6.3% Series J Cumulative Redeemable Preferred Shares (the “Series J Preferred Shares”) were issued and outstanding. The aggregate liquidation preference with respect to the outstanding preferred shares is approximately \$328.8 million, and annual dividends on our outstanding preferred shares are approximately \$21.6 million. Holders of our Series H Preferred Shares, Series I Preferred Shares and Series J Preferred Shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation,

dissolution or winding up, before any payment is made to holders of our common shares, holders of these preferred shares are entitled to receive a liquidation preference of \$25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of these preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends on the preferred shares are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive. Because our decision to issue securities will depend on market conditions and other factors beyond our control, we cannot predict

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or estimate the amount, timing or nature of our future preferred offerings. Thus, our shareholders bear the risk of our future securities issuances reducing the market price of our common shares and diluting their interest.

The market price and trading volume of our common shares may be volatile.

The market price of our common shares may be volatile. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. If the market price of our common shares declines significantly, shareholders may be unable to resell their shares at or above the price at which they traded when they acquired them. We cannot provide assurance that the market price of our common shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the market price of our common shares or result in fluctuations in the market price or trading volume of our common shares include:

• actual or anticipated variations in our quarterly operating results;

• changes in our operations or earnings estimates;

• publication of research reports about us, the real estate industry or the lodging industry;

• changes in our dividend policy;

• increases in market interest rates that lead purchasers of our shares to demand a higher yield;

• changes in market valuations of similar companies;

• adverse market reaction to any additional equity or debt we may issue or incur in the future;

• share repurchases under the Company's share repurchase program;

• additions or departures of key management personnel;

• speculation in the press or investment community;

• the realization of any of the other risk factors presented in this Annual Report on Form 10-K; and

• general U.S. and worldwide market and economic conditions.

We cannot guarantee that we will repurchase shares pursuant to our share repurchase program or that our share repurchase program will enhance long-term shareholder value.

Our Board of Trustees has approved an expanded share repurchase program to acquire up to \$600.0 million of our common shares. As of February 22, 2017, we had availability under the share repurchase program to acquire up to \$569.8 million of our common shares. The share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases. The timing, manner, price and actual number of shares repurchased, if any, will depend on a variety of factors, including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The share repurchase program may be suspended, modified or terminated at any time for any reason without prior notice. In addition, repurchases of shares pursuant to our share repurchase program could affect our share price and increase its volatility. The existence of a share repurchase program could cause our share price to be higher than it would be in the absence of such program and could potentially reduce the market liquidity for our shares. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that any share repurchases will enhance shareholder value because the market price of our common shares may decline below the levels at which we repurchase shares.

Although our share repurchase program is intended to enhance long-term shareholder value, there is no assurance that it will do so and short-term share price fluctuations could reduce the effectiveness of the program.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Hotel Properties

As of December 31, 2016, the Company owned interests in the following 46 hotel properties:

Hotel Properties	Number of Guest Rooms	Location
1. Hotel Amarano Burbank	132	Burbank, CA
2. L' Auberge Del Mar	121	Del Mar, CA
3. Hilton San Diego Gaslamp Quarter	286	San Diego, CA
4. Hotel Solamar ⁽¹⁾	235	San Diego, CA
5. San Diego Paradise Point Resort and Spa ⁽¹⁾	462	San Diego, CA
6. The Hilton San Diego Resort and Spa ⁽¹⁾	357	San Diego, CA
7. Harbor Court Hotel ⁽¹⁾	131	San Francisco, CA
8. Hotel Triton ⁽¹⁾	140	San Francisco, CA
9. Hotel Vitale ⁽¹⁾	200	San Francisco, CA
10. Park Central San Francisco	681	San Francisco, CA
11. Serrano Hotel	236	San Francisco, CA
12. The Marker San Francisco	208	San Francisco, CA
13. Villa Florence	189	San Francisco, CA
14. Chaminade Resort and Conference Center	156	Santa Cruz, CA
15. Viceroy Santa Monica ⁽¹⁾	162	Santa Monica, CA
16. Chamberlain West Hollywood	115	West Hollywood, CA
17. Le Montrose Suite Hotel	133	West Hollywood, CA
18. Le Parc Suite Hotel	154	West Hollywood, CA
19. The Grafton on Sunset	108	West Hollywood, CA
20. Hotel George	139	Washington, DC
21. Hotel Madera	82	Washington, DC
22. Hotel Palomar, Washington, DC	335	Washington, DC
23. Hotel Rouge	137	Washington, DC
24. Mason & Rook Hotel	178	Washington, DC
25. Sofitel Washington, DC Lafayette Square	237	Washington, DC
26. The Donovan	193	Washington, DC
27. The Liaison Capitol Hill	343	Washington, DC
28. Topaz Hotel	99	Washington, DC
29. Southernmost Beach Resort Key West ⁽⁴⁾	260	Key West, FL
30. The Marker Waterfront Resort	96	Key West, FL
31. Hotel Chicago	354	Chicago, IL
32. Westin Michigan Avenue	752	Chicago, IL
33. Hyatt Regency Boston Harbor ⁽¹⁾⁽²⁾	270	Boston, MA
34. Onyx Hotel	112	Boston, MA
35. The Liberty Hotel ⁽¹⁾	298	Boston, MA
36. Westin Copley Place ⁽²⁾⁽³⁾	803	Boston, MA
37. Gild Hall	130	New York, NY
38. The Roger ⁽¹⁾	194	New York, NY
39. Park Central Hotel New York	761	New York, NY
40. WestHouse Hotel New York	172	New York, NY
41. The Heathman Hotel	150	Portland, OR
42. Embassy Suites Philadelphia – Center City	288	Philadelphia, PA
43. Westin Philadelphia	294	Philadelphia, PA

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44. Lansdowne Resort	296	Lansdowne, VA
45. Alexis Hotel	121	Seattle, WA
46. Hotel Deca ⁽⁵⁾	158	Seattle, WA
Total number of guest rooms	11,458	

⁽¹⁾ Property subject to a long-term ground or land and building lease.

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- (2) Property subject to a mortgage/debt.
- (3) Property subject to a long-term air rights lease.
- (4) Property subject to a ground lease on a restaurant facility.
- (5) Property sold on January 19, 2017.

Each of the Company's hotels is full service, with 13 classified as "luxury," 31 classified as "upper upscale" and two classified as "upscale," as defined by Smith Travel Research, a provider of hotel industry data.

Item 3. Legal Proceedings

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Information about the Company's equity compensation plans is incorporated by reference to the material in the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders (the "Proxy Statement").

Market Information

The common shares of the Company began trading on the NYSE on April 24, 1998 under the symbol "LHO." The following table sets forth, for the periods indicated, the high and low sale prices per common share and the cash distributions declared per share:

	Calendar Year 2016			Calendar Year 2015		
	High	Low	Distribution (1)	High	Low	Distribution (1)
First Quarter	\$26.85	\$19.01	\$ 0.45	\$43.56	\$36.54	\$ 0.38
Second Quarter	\$25.31	\$21.56	\$ 0.45	\$39.70	\$34.87	\$ 0.45
Third Quarter	\$29.10	\$23.02	\$ 0.45	\$38.46	\$27.70	\$ 0.45
Fourth Quarter	\$31.15	\$23.05	\$ 0.45	\$32.10	\$24.91	\$ 0.45

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

The closing price for the Company's common shares, as reported by the NYSE on December 31, 2016, was \$30.47 per share.

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SHARE PERFORMANCE GRAPH

The following graph provides a comparison of the cumulative total return on the common shares from December 31, 2011 to the NYSE closing price per share on December 31, 2016 with the cumulative total return on the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500") and the FTSE National Association of Real Estate Investment Trusts Equity REITs Index ("FTSE NAREIT Equity Index"). Total return values were calculated assuming a \$100 investment on December 31, 2011 with reinvestment of all dividends in (i) the common shares, (ii) the S&P 500 and (iii) the FTSE NAREIT Equity Index.

The actual returns on the graph above are as follows:

Name	Value of Initial Investment at December 31, 2011	Value of Initial Investment at December 31, 2012	Value of Initial Investment at December 31, 2013	Value of Initial Investment at December 31, 2014	Value of Initial Investment at December 31, 2015	Value of Initial Investment at December 31, 2016
LaSalle Hotel Properties	\$ 100.00	\$ 107.69	\$ 135.54	\$ 184.83	\$ 121.43	\$ 157.89
S&P 500 Index	\$ 100.00	\$ 116.00	\$ 153.57	\$ 174.60	\$ 177.01	\$ 198.18
FTSE NAREIT Equity Index	\$ 100.00	\$ 119.70	\$ 123.12	\$ 157.63	\$ 162.08	\$ 176.07

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing by the Company under the Securities Act, except as shall be expressly set forth by specific reference in such filing.

Shareholder Information

As of February 15, 2017, there were 58 record holders of the Company's common shares of beneficial interest, including shares held in "street name" by nominees who are record holders, and approximately 26,500 beneficial holders.

Distribution Information

For 2016, the Company paid \$2.250 per common share/unit in distributions, of which \$1.8680 (rounded) was recognized as 2016 distributions for tax purposes and \$0.3820 (rounded) per common share/unit was recognized as 2015 distributions for tax purposes. Of the \$1.8680, 62.26% represented ordinary income, 24.36% represented capital gain and 13.38% represented unrecaptured Section 1250 gain. Distributions for 2016 were paid quarterly to the Company's common shareholders and unitholders at a level of \$0.450 per common share/unit.

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For 2015, the Company paid \$1.725 per common share/unit in distributions, of which \$1.6570 (rounded) was recognized as 2015 distributions for tax purposes and \$0.0680 (rounded) was recognized as 2016 distributions for tax purposes. The entire \$1.6570 represented ordinary income. Distributions for 2015 were paid quarterly to the Company's common shareholders and unitholders at a level of \$0.375 per common share/unit for the first quarter and \$0.450 per common share/unit for the second, third and fourth quarters.

The Company's federal and state tax returns for the year ended December 31, 2016 have not been filed. The taxability information presented for the Company's dividends paid in 2016 is based upon management's estimate.

The declaration of distributions by the Company is at the sole discretion of the Company's Board of Trustees, and depends on the actual cash flow of the Company, its financial condition, capital expenditure requirements for the Company's hotels, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Trustees deems relevant.

Operating Partnership Units and Recent Sales of Unregistered Securities

The Operating Partnership issued 3,181,723 common units of limited partnership interest to third parties on April 24, 1998 (inception), in conjunction with the Company's initial public offering. The following is a summary of common unit activity since inception:

Common units issued at initial public offering	3,181,723
Common units issued:	
2000-2006	86,667
2011	296,300
Common units redeemed:	
1999-2015	(3,419,467)
Common units outstanding at December 31, 2016	145,223

Holders of common units of limited partnership interest receive distributions per unit in the same manner as distributions on a per common share basis to the common shareholders of beneficial interest. Subject to certain limitations, common units of limited partnership interest are redeemable for cash or, at the Company's option, for a like number of common shares of beneficial interest of the Company.

Common shares issued upon redemption of common units of limited partnership interest were issued in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder.

The Company relied on the exemption based on factual representations given by the limited partners who received the common shares of beneficial interest.

On December 29, 2011, in connection with the Company's acquisition of Park Central Hotel New York and as part of the consideration for the hotel acquisition, the Operating Partnership issued 296,300 common units of limited partnership interest. The issuance of the common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act and Regulation D promulgated thereunder. The Company relied on the exemption based on representations given by the holders of the common units. On May 13, 2015, the Company issued an aggregate of 151,077 common shares of beneficial interest in connection with the redemption of 151,077 of such common units of limited partnership interest.

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Item 6. Selected Financial Data

The following tables set forth selected historical operating and financial data for the Company. The selected historical operating and financial data for the Company for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 have been derived from the historical financial statements of the Company. The following selected financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and all of the financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

LASALLE HOTEL PROPERTIES

Selected Historical Operating and Financial Data

(Unaudited, in thousands, except share data)

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Operating Data:					
Revenues:					
Hotel operating revenues	\$1,220,612	\$1,208,591	\$1,101,457	\$969,356	\$862,146
Other income	7,007	7,993	8,321	7,937	4,929
Total revenues	1,227,619	1,216,584	1,109,778	977,293	867,075
Expenses:					
Hotel operating expenses	728,229	724,531	668,790	596,241	533,237
Depreciation and amortization	192,322	180,855	155,035	143,991	124,363
Real estate taxes, personal property taxes and insurance	63,406	65,438	57,805	53,374	44,551
Ground rent	16,187	16,076	14,667	11,117	8,588
General and administrative	26,529	25,197	23,832	22,001	19,769
Acquisition transaction costs	0	499	2,379	2,646	4,498
Other expenses	6,283	17,225	7,369	9,361	3,017
Total operating expenses	1,032,956	1,029,821	929,877	838,731	738,023
Operating income	194,663	186,763	179,901	138,562	129,052
Interest income	3,553	2,938	1,812	9,679	4,483
Interest expense	(43,775)	(54,333)	(56,628)	(57,516)	(52,896)
Loss from extinguishment of debt	0	(831)	(2,487)	0	0
Income before income tax (expense) benefit	154,441	134,537	122,598	90,725	80,639
Income tax (expense) benefit	(5,784)	1,292	(2,306)	(470)	(9,062)
Income before net gain on sale of properties and sale of note receivable	148,657	135,829	120,292	90,255	71,577
Net gain on sale of properties and sale of note receivable	104,478	0	93,205	0	0
Net income	253,135	135,829	213,497	90,255	71,577
Net income attributable to noncontrolling interests:					
Noncontrolling interests in consolidated entities	(17)	(16)	(16)	(17)	0
Noncontrolling interests of common units in Operating Partnership	(337)	(261)	(636)	(303)	(281)
Net income attributable to noncontrolling interests	(354)	(277)	(652)	(320)	(281)
Net income attributable to the Company	252,781	135,552	212,845	89,935	71,296
Distributions to preferred shareholders	(18,206)	(12,169)	(14,333)	(17,385)	(21,733)
Issuance costs of redeemed preferred shares	0	0	(951)	(1,566)	(4,417)
Net income attributable to common shareholders	\$234,575	\$123,383	\$197,561	\$70,984	\$45,146

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LASALLE HOTEL PROPERTIES

Selected Historical Operating and Financial Data

(Unaudited, in thousands, except share data)

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Earnings per Common Share:					
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares					
Basic	\$2.07	\$1.09	\$1.89	\$0.73	\$0.52
Diluted	\$2.07	\$1.09	\$1.88	\$0.73	\$0.52
Weighted average number of common shares outstanding:					
Basic	112,791,839	112,685,235	104,188,785	97,041,484	85,757,969
Diluted	113,164,599	113,096,420	104,545,895	97,228,671	85,897,274
Balance Sheet Data:					
Investment in hotel properties, net	\$3,672,209	\$3,817,676	\$3,428,556	\$3,383,188	\$3,053,044
Total assets ⁽¹⁾	3,944,079	4,069,346	3,698,779	3,577,757	3,252,447
Borrowings under credit facilities	0	21,000	0	220,606	153,000
Term loans, net of unamortized debt issuance costs ⁽¹⁾	852,758	852,203	476,428	474,675	474,008
Bonds payable, net of unamortized debt issuance costs ⁽¹⁾	42,455	42,316	42,144	42,267	42,216
Mortgage loans, including unamortized loan premiums, net of unamortized debt issuance costs ⁽¹⁾	223,494	508,804	500,963	514,233	578,873
Noncontrolling interests in consolidated entities	17	18	17	18	18
Noncontrolling interests of common units in Operating Partnership	3,277	3,198	6,660	6,054	5,786
Preferred shares, liquidation preference	328,750	178,750	178,750	237,472	227,472
Total shareholders' equity	2,558,065	2,374,267	2,441,709	2,103,391	1,853,126
Other Data:					
Funds from operations (FFO) ⁽²⁾	\$322,562	\$304,300	\$259,940	\$215,219	\$169,607
Earnings before interest, taxes, depreciation and amortization (EBITDA) ⁽²⁾	495,016	370,556	429,002	290,666	253,481
Cash provided by operating activities	359,251	337,519	283,236	245,565	216,364
Cash provided by (used in) investing activities	154,154	(642,002)	(78,001)	(422,045)	(524,154)
Cash (used in) provided by financing activities	(384,453)	196,052	(104,492)	154,778	322,655
Cash dividends declared per common share ⁽³⁾	\$1.80	\$1.73	\$1.41	\$0.96	\$0.71

⁽¹⁾ Amounts reclassified to conform with the 2016 presentation of debt issuance costs.

See "Non-GAAP Financial Measures" below in Item 7. "Management's Discussion and Analysis of Financial

⁽²⁾ Condition and Results of Operations" for a detailed description and reconciliation of funds from operations ("FFO") and earnings before interest, taxes, depreciation and amortization ("EBITDA") to net income attributable to common shareholders.

⁽³⁾ Amounts are rounded to the nearest whole cent for presentation purposes.

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

Overview

During 2016, the Company's hotels continued to operate within a generally positive environment. Some of the economic indicators the Company tracks were encouraging throughout the year, and other indicators became more positive during the second half of the year. On the more positive side, consumer confidence reached its highest level in nine years and unemployment remained stable below 5.0%. Enplanements have been steady and airline capacity increased during 2016. In contrast, corporate profits weakened during the first half of 2016, but are projected to grow for the second half of the year, as reported thus far for the fourth quarter. Similarly, U.S. GDP growth in the second half of the year outpaced growth during the first half. However, U.S. GDP growth for 2016 still ended below the estimates from the beginning of the year. The U.S. lodging industry benefited from a positive economic landscape overall, but there were signs of moderation, and the industry RevPAR grew at a rate of 3.2%, compared to RevPAR growth of 6.3% in 2015. During 2016, lodging industry demand grew by 1.7% and was mostly offset by a 1.6% supply increase. Industry-wide pricing was moderate, leading to ADR growth of 3.1%. The Company's portfolio benefited from the operating environment, and RevPAR increased during 2016 by 2.5%.

For 2016, the Company had net income attributable to common shareholders of \$234.6 million, or \$2.07 per diluted share. FFO attributable to common shareholders and unitholders was \$322.6 million, or \$2.85 per diluted share/unit (based on 113,309,822 weighted average shares and units outstanding during the year ending December 31, 2016) and EBITDA was \$495.0 million. RevPAR for the hotel portfolio was \$204.08, which was an increase of 2.5% compared to 2015. Occupancy grew by 2.7% and ADR decreased by 0.2%. The Company's FFO per diluted share/unit and EBITDA increased year-over-year due to improvements in the performance of its hotel portfolio and from the gain on the sale of Indianapolis Marriott Downtown.

Hotel operations depend on the state of the overall economy which can significantly impact hotel operational performance and thus, impact the Company's financial position. Should any of the hotels experience a significant decline in operational performance, it may affect the Company's ability to make distributions to its shareholders, service debt or meet other financial obligations.

In addition to measuring the Company's net income (loss), the Company also measures hotel performance by evaluating financial metrics such as RevPAR, FFO and EBITDA. The Company evaluates the hotels in its portfolio and potential acquisitions using these metrics discussed above to determine each portfolio hotel's contribution or acquisition hotel's potential contribution toward reaching the Company's goals of providing income to its shareholders through increases in distributable cash flow and increasing long-term total returns to shareholders through appreciation in the value of its common shares. The Company invests in capital improvements throughout the portfolio to continue to increase the competitiveness of its hotels and improve their financial performance. The Company actively seeks to acquire hotel properties, but continues to face significant competition for acquisitions that meet its investment criteria.

Please refer to "Non-GAAP Financial Measures" for a detailed discussion of the Company's use of FFO and EBITDA and a reconciliation of FFO and EBITDA to net income attributable to common shareholders, a measurement computed in accordance with U.S. generally accepted accounting principles ("GAAP").

Critical Accounting Policies

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

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. In preparing these financial statements, management has used the information available including the Company's past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements.

It is possible that the ultimate outcome as anticipated by management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical accounting policies below involves the

exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from those estimates. In addition, other companies may determine these estimates differently, which may impact comparability of the Company's results of operations to those of companies in similar businesses.

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Investment in Hotel Properties

Upon acquisition, the Company determines the fair value of the acquired long-lived assets, assumed debt and any intangible assets or liabilities. The Company's investments in hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 30 to 40 years for buildings, 15 years for building improvements, the shorter of the useful life of the improvement or the term of the related tenant lease for tenant improvements, 7 years for land improvements, 20 years for golf course land improvements, 20 years for swimming pool assets and 3 to 5 years for furniture, fixtures and equipment. For investments subject to land and building leases that qualify as capital leases, assets are recorded at the estimated fair value of the right to use the leased property at acquisition and depreciated over the shorter of the useful lives of the assets or the term of the respective lease. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

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

The Company reviews each hotel for impairment at the end of each reporting period or as events and circumstances dictate throughout the year. A property is considered impaired when the sum of estimated future undiscounted cash flows over the estimated remaining holding period is less than the carrying amount of a property.

At the end of each reporting period, the Company assesses whether any quantitative or qualitative triggering events have occurred in relation to a property. Examples of situations considered to be triggering events include:

- a substantial decline in operating cash flows during the period, including declines related to decreased occupancy, ADR or RevPAR;

- a current or projected loss from operations;

- a significant cost accumulation above the original acquisition/development estimate;

- a change in plan to sell the property prior to the end of its useful life or holding period;

- a significant decrease in market price not in line with general market trends;
and

- any other quantitative or qualitative events deemed significant by our management or our Board of Trustees.

If the presence of one or more triggering events as described above is identified at the end of a reporting period or throughout the year with respect to a hotel, the Company performs a recoverability test. In doing so, an estimate of undiscounted future cash flows over the estimated remaining holding period is compared to the carrying amount of the hotel.

Impairment is indicated if the results of a recoverability analysis indicate that the carrying amount of a hotel exceeds the estimated future undiscounted cash flows. An impairment charge is recorded equal to the excess of the carrying value of the hotel over the fair value. When determining the fair value of a property, the Company makes certain assumptions including, but not limited to, consideration of:

- projected operating cash flows – considering factors such as booking pace, growth rates, occupancy, room rates, property-specific operating costs and future capital expenditures;

-

projected cash flows from the eventual disposition of the hotel based upon our estimation of a property-specific capitalization rate;

• property-specific discount rates; and

• comparable selling prices.

The Company considers a hotel as held for sale when a contract for sale is entered into, a substantial non-refundable deposit has been received from the purchaser and sale is expected to occur within one year.

Upon sale of a hotel, the Company determines its profit from the sale under the full accrual method provided the following applicable criteria are met: a sale is consummated; the buyer's initial and continuing investments are adequate to demonstrate a

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commitment to pay for the property; the Company's receivable, if applicable, is not subject to future subordination; the Company has transferred to the buyer the usual risks and rewards of ownership; and the Company does not have a substantial continuing involvement with the property. If all of these conditions are met, the Company will recognize the full profit on the sale.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Industry travel was stronger during the year ended December 31, 2016 compared to the prior year. Industry demand grew at approximately the same rate as industry supply grew, which kept industry occupancy at a high level, leading to moderate pricing power and ADR growth during the year. With respect to the Company's hotels, occupancy grew by 2.7% during the year ended December 31, 2016 and ADR decreased 0.2%, which resulted in RevPAR improvement of 2.5% year-over-year.

Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, increased \$12.0 million from \$1,208.6 million in 2015 to \$1,220.6 million in 2016. This increase is due primarily to the hotel operating revenues generated from the 2015 hotel acquisitions, which consist of the acquisitions of Park Central San Francisco and The Marker Waterfront Resort (collectively, the "2015 Acquisition Properties"). The 2015 Acquisition Properties, which are not comparable year-over-year, contributed \$8.7 million to the increase in hotel operating revenues. Additionally, the effects of the moderately improving, yet slowing, economic environment, which resulted in a 1.6% increase in RevPAR across the portfolio excluding the Park Central Hotel New York, WestHouse Hotel New York and Indianapolis Marriott Downtown, attributable to a 1.3% increase in occupancy, and a 0.3% increase in ADR, contributed to the increase in hotel operating revenues.

The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

\$2.5 million increase from The Grafton on Sunset;

\$2.4 million increase from Sofitel Washington, DC Lafayette Square;

- \$2.3 million increase from Westin Copley Place;

\$2.1 million increase from Hotel Chicago; and

\$1.9 million increase from Hotel Amarano Burbank.

Park Central Hotel New York and WestHouse Hotel New York experienced an increase of \$11.4 million over the prior year mainly due to the disruptive union activity in 2015. In addition, the completion of the renovation of the Mason & Rook Hotel in early 2016 resulted in a \$2.6 million increase.

These increases are partially offset by a combined \$23.6 million decrease in hotel operating revenues, \$19.6 million of which is due to the July 2016 disposition of the Indianapolis Marriott Downtown. The remaining \$4.0 million is primarily due to lower food and beverage revenue at The Marker San Francisco, as the restaurant was transitioned to a third-party lease.

Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$1.7 million across 35 additional hotels in the portfolio.

Other Income

Other income decreased \$1.0 million from \$8.0 million in 2015 to \$7.0 million in 2016 primarily due to decreased insurance gains from insurance proceeds related to minor property damage at various properties.

Hotel Operating Expenses

Hotel operating expenses increased a net \$3.7 million from \$724.5 million in 2015 to \$728.2 million in 2016. This overall increase is primarily due to \$4.0 million from the results of the 2015 Acquisition Properties, which are not comparable year-over-year. To a lesser extent, the increase is a result of increased operating costs associated with higher occupancies at certain properties in the portfolio attributable to the moderately improving, yet slowing, economic environment.

In addition to the above increase, Park Central Hotel New York and WestHouse Hotel New York had a total increase of \$4.8 million, which corresponds to the significant revenue increase as a result of the disruptive union activity at the hotels in 2015. The completion of the renovation of the Mason & Rook Hotel in early 2016 also resulted in a \$2.0 million increase in expenses.

These increases are partially offset by a \$13.2 million decrease related to the July 2016 disposition of the Indianapolis Marriott Downtown, and a \$2.3 million decrease due to lower food and beverage expenses at The Marker San Francisco, reflecting the change to a third-party lease.

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Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing \$8.4 million or 1.5% across the 40 additional hotels in the portfolio.

Depreciation and Amortization

Depreciation and amortization expense increased \$11.4 million from \$180.9 million in 2015 to \$192.3 million in 2016. Of the increase, \$1.5 million is attributable to the 2015 Acquisition Properties, which are not comparable year-over-year. Depreciation and amortization expense increased a net \$12.0 million across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity, particularly at the Westin Michigan Avenue, Hotel Palomar, Washington, DC and The Liberty Hotel. The increase is partially offset by the July 2016 disposition of the Indianapolis Marriott Downtown, which resulted in a \$2.1 million decrease in depreciation and amortization expense.

Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses decreased \$2.0 million from \$65.4 million in 2015 to \$63.4 million in 2016. Of the decrease, \$1.8 million is the result of the July 2016 disposition of the Indianapolis Marriott Downtown, as the Company received credits as part of the expense proration process. The decrease is partially offset by a \$0.3 million increase from the 2015 Acquisition Properties, which are not comparable year-over-year. Real estate taxes and personal property taxes were flat for the remainder of the portfolio. Insurance expense decreased by \$0.5 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$0.1 million from \$16.1 million in 2015 to \$16.2 million in 2016 due primarily to moderately improved operating results. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance.

General and Administrative

General and administrative expense increased \$1.3 million from \$25.2 million in 2015 to \$26.5 million in 2016 due to a \$1.6 million charge in 2016 associated with the departure of the Company's former Chief Financial Officer partially offset by a \$0.3 million net decrease in other compensation costs, which offset slightly higher professional fees.

Acquisition Transaction Costs

Acquisition transaction costs of \$0.5 million in 2015 relate to the purchase of the 2015 Acquisition Properties and the placing of the Company's junior mezzanine loan ("Mezzanine Loan").

Other Expenses

Other expenses decreased \$10.9 million from \$17.2 million in 2015 to \$6.3 million in 2016. Of the decrease, \$6.8 million is attributable to the 2015 disruptive union activities at two of the Company's New York properties. In addition, management transition expenses, severance and pre-opening costs have decreased by \$4.9 million as the Company was transitioning management at four San Francisco properties in 2015. This decrease was slightly offset by \$1.4 million of transition and pre-opening expenses incurred in 2016 including the grand opening of the Mason & Rook Hotel. Miscellaneous and retail lease expenses also decreased by \$0.6 million in 2016.

Interest Income

Interest income increased \$0.6 million from \$2.9 million in 2015 to \$3.5 million in 2016 as a result of the interest income earned on the Company's Mezzanine Loan secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, which was acquired in July 2015. The Company sold the Mezzanine Loan in July 2016.

Interest Expense

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Interest expense decreased \$10.5 million from \$54.3 million in 2015 to \$43.8 million in 2016 due to a decrease in the Company's weighted average interest rate and a decrease in the weighted average debt outstanding. The Company's weighted average debt outstanding decreased from \$1.42 billion in 2015 to \$1.34 billion in 2016 due to repayments of mortgage loans and paydowns on the unsecured credit facilities with proceeds from the following:

- the issuance of the Series J Preferred Shares in May 2016;
- the sale of Indianapolis Marriott Downtown in July 2016;
- the sale of the Mezzanine Loan in July 2016; and
- positive operating results from the hotel properties.

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The above paydowns were partially offset by borrowings for the following:

- additional borrowings to purchase the 2015 Acquisition Properties and the Mezzanine Loan in July 2015;
- additional borrowings on the Company's unsecured credit facilities to repay the Westin Michigan Avenue, Indianapolis Marriott Downtown and The Roger mortgage loans; and
- additional borrowings to finance other capital improvements during 2015 and 2016.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 3.54% in 2015 to 2.90% in 2016. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June 2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which has a rate of 2.46% as of December 31, 2016. This decrease is also attributable to the repayment of the Westin Michigan Avenue 5.75% fixed rate mortgage loan, the Indianapolis Marriott Downtown 5.99% fixed rate mortgage loan and The Roger 6.31% fixed rate mortgage loan in the first quarter of 2016 with borrowings on the Company's senior unsecured credit facility, which has a weighted average rate of 2.14% for the year ending December 31, 2016. Interest capitalized on renovations decreased from \$0.9 million in 2015 to \$0.4 million in 2016.

Loss from Extinguishment of Debt

Loss from extinguishment of debt of \$0.8 million in 2015 relates to the write-off of the unamortized deferred financing costs for the Company's Repaid Term Loan (as defined below) due to its repayment prior to maturity on November 5, 2015.

Income Tax Expense

Income tax changed by \$7.1 million from an income tax benefit of \$1.3 million in 2015 to an income tax expense of \$5.8 million in 2016. This change is primarily the result of an increase in LHL's net income before income tax expense of \$15.2 million from a net loss before income tax benefit of \$4.9 million in 2015 to net income before income tax expense of \$10.3 million in 2016 and a minimal impact of the finalization and related adjustments of the 2015 federal and state tax returns during the 2016 period. For the year ended December 31, 2016, LHL's income tax expense was calculated using an estimated combined federal and state effective tax rate of 42.6%.

Net Gain on Sale of Property and Sale of Note Receivable

The net gain on sale of property and sale of note receivable is \$104.5 million which consists of a \$104.8 million gain relating to the sale of the Indianapolis Marriott Downtown on July 14, 2016, partially offset by \$0.3 million of costs associated with the sale of the Company's Mezzanine Loan on July 8, 2016.

Noncontrolling Interests in Consolidated Entities

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

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represents the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At December 31, 2016, third-party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders increased \$6.0 million from \$12.2 million in 2015 to \$18.2 million in 2016 due to distributions on the Series J Preferred Shares, which were issued on May 25, 2016.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

Industry travel was stronger during the year ended December 31, 2015 compared to the prior year, although there were underlying signs of weakening trends. Moderate demand improvements and low supply growth led to an occupancy increase, which has encouraged operators to increase pricing. The year ended December 31, 2015 had solid RevPAR results for the industry, but the pace of RevPAR growth decelerated during each successive quarter of the year. With respect to the Company's hotels, ADR grew 2.4% during the year ended December 31, 2015, while occupancy decreased 0.9%, which resulted in RevPAR improvement of 1.4% year-over-year. Excluding the impact at Park Central Hotel New York and WestHouse Hotel New York, ADR grew 2.7% during the year ended December 31, 2015, while occupancy decreased 0.1%, which resulted in RevPAR improvement of 2.6% year-over-year.

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Hotel Operating Revenues

Hotel operating revenues, including room, food and beverage and other operating department revenues, increased \$107.1 million from \$1,101.5 million in 2014 to \$1,208.6 million in 2015. This increase is due primarily to the hotel operating revenues generated from the 2014 and 2015 hotel acquisitions, which consist of the acquisitions of Hotel Vitale, The Heathman Hotel, Park Central San Francisco and The Marker Waterfront Resort (collectively, the “2014 and 2015 Acquisition Properties”). The 2014 and 2015 Acquisition Properties, which are not comparable year-over-year, contributed \$104.5 million to the increase in hotel operating revenues. Additionally, the effects of the moderately improving U.S. economy, which resulted in a 3.0% increase in RevPAR across the portfolio, excluding the Hilton Alexandria Old Town and Hotel Viking (collectively, the “2014 Disposition Properties”) and the Park Central Hotel New York and WestHouse Hotel New York, attributable to a 3.8% increase in ADR, partially offset by a 0.7% decrease in occupancy, contributed to the increase in hotel operating revenues.

The following hotels experienced significant increases in total room, food and beverage and other operating department revenues primarily as a result of the effects of the moderately improving economy:

- \$5.5 million increase from Westin Copley Place;
- \$3.5 million increase from Hotel Chicago;
- \$3.5 million increase from L’Auberge Del Mar;
- \$3.4 million increase from Indianapolis Marriott Downtown;
- \$3.2 million increase from The Hilton San Diego Resort and Spa;
- \$3.0 million increase from Southernmost Beach Resort Key West;
- \$2.5 million increase from Hyatt Regency Boston Harbor; and
- \$2.0 million increase from Hilton San Diego Gaslamp Quarter.

These increases are partially offset by a \$19.0 million decrease related to the sale of the 2014 Disposition Properties. Additionally, total room, food and beverage and other operating department revenues significantly decreased by \$9.0 million at the Park Central Hotel New York and WestHouse Hotel New York due to the disruptive union activity at the hotels. Hotel operating revenue from Westin Philadelphia decreased by \$2.2 million due to the completion of the hotel renovation reflecting the significant number of rooms that were out of service during the renovation period. Hotel operating revenues across the remainder of the portfolio remained relatively constant, increasing a net \$6.2 million across 32 additional hotels in the portfolio.

Other Income

Other income decreased \$0.3 million from \$8.3 million in 2014 to \$8.0 million in 2015 primarily due to lower non-operating miscellaneous income, partially offset by increased insurance gains from insurance proceeds related to minor property damage at various properties.

Hotel Operating Expenses

Hotel operating expenses increased \$55.7 million from \$668.8 million in 2014 to \$724.5 million in 2015. This overall increase is primarily due to \$64.2 million from the results of the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year.

The overall increase is partially offset by a \$11.4 million decrease related to the sale of the 2014 Disposition Properties. Additionally, total room, food and beverage and other direct and other indirect expenses decreased by \$2.3 million at the Park Central Hotel New York and WestHouse Hotel New York reflecting the decreased revenue due to the disruptive union activity at the hotels.

Hotel operating expenses across the remainder of the portfolio remained relatively constant, increasing a net \$5.2 million across the 41 additional hotels in the portfolio. Cost savings initiatives throughout the portfolio resulted in decreased operating expenses at selected properties which partially offset overall increases in hotel operating expenses.

Depreciation and Amortization

Depreciation and amortization expense increased \$25.9 million from \$155.0 million in 2014 to \$180.9 million in 2015. Of the increase, \$13.4 million is attributable to the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year. Depreciation and amortization expense increased a net \$15.1 million across the remaining hotels in the portfolio due to the depreciation of new assets placed into service reflecting the Company's recent renovation activity. These increases are partially offset by \$2.6 million from the 2014 Disposition Properties, which are not comparable year-over-year.

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Real Estate Taxes, Personal Property Taxes and Insurance

Real estate taxes, personal property taxes and insurance expenses increased \$7.6 million from \$57.8 million in 2014 to \$65.4 million in 2015. This increase is primarily due to \$6.0 million from the 2014 and 2015 Acquisition Properties, which are not comparable year-over-year. The increase is partially offset by a \$1.0 million decrease in real estate taxes, personal property taxes and insurance expense attributable to the sale of the 2014 Disposition Properties, which are also not comparable year-over-year. Real estate taxes and personal property taxes increased by \$3.1 million across the remaining hotels in the portfolio due primarily to increased property values or tax rates at certain properties, primarily the two Chicago properties, which were slightly offset by successful real estate tax appeals. Insurance expense decreased by \$0.5 million reflecting slightly lower premiums throughout the portfolio.

Ground Rent

Ground rent increased \$1.4 million from \$14.7 million in 2014 to \$16.1 million in 2015. Certain hotels are subject to ground rent under operating leases which call for either fixed or variable payments based on the hotel's performance. Hotel Vitale, which is not comparable year-over-year, contributed \$0.8 million to the 2015 increase. The other hotels subject to ground leases contributed a net \$0.6 million to the increase due to improved operating results.

General and Administrative

General and administrative expense increased \$1.4 million from \$23.8 million in 2014 to \$25.2 million in 2015 due primarily to increased compensation costs, partially due to additional staffing as a result of portfolio growth.

Acquisition Transaction Costs

Acquisition transaction costs of \$2.4 million in 2014 and \$0.5 million in 2015 relate to the purchase of the 2014 and 2015 Acquisition Properties and the placing of the Mezzanine Loan.

Other Expenses

Other expenses increased \$9.8 million from \$7.4 million in 2014 to \$17.2 million in 2015 due primarily to an increase of \$6.1 million in one-time expenses associated with the alleged health and safety claims by the union at the Park Central Hotel New York and WestHouse Hotel New York. These expenses include guest relocation expenses, clean up, legal and payroll. A net \$3.3 million increase in management transition expenses, severance and pre-opening costs in 2015 was incurred at a number of properties across the portfolio. In addition, losses from property damage, retail lease expenses and other miscellaneous expenses increased by a net \$0.4 million.

Interest Income

Interest income increased \$1.1 million from \$1.8 million in 2014 to \$2.9 million in 2015 as a result of the February 10, 2014 repayment of the \$72.0 million mezzanine loan which was acquired in July 2012, partially offset by the placing of the new \$80.0 million Mezzanine Loan, which was acquired in July 2015.

Interest Expense

Interest expense decreased \$2.3 million from \$56.6 million in 2014 to \$54.3 million in 2015 due to a decrease in the Company's weighted average interest rate, partially offset by an increase in the weighted average debt outstanding. The Company's weighted average debt outstanding increased from \$1.30 billion in 2014 to \$1.42 billion in 2015 due primarily to borrowings for the following:

- additional borrowings to purchase the 2014 and 2015 Acquisition Properties and the July 2015 Mezzanine Loan;
- additional borrowings to redeem the remainder of 7.25% Series G Cumulative Redeemable Preferred Shares (the "Series G Preferred Shares") in July 2014; and
- additional borrowings to finance other capital improvements during 2014 and 2015.

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The above borrowings were partially offset by paydowns with proceeds from the following:

- the repayment of the mezzanine loan in February 2014;
- the sale of Hilton Alexandria Old Town in June 2014;
- the sale of Hotel Viking in September 2014;
- the December 2014 common share offering; and
- positive operating results from the hotel properties.

The Company's weighted average interest rate, including the effect of capitalized interest, decreased from 4.06% in 2014 to 3.54% in 2015. This decrease is due in part to the repayment of the Westin Copley Place 5.28% fixed rate mortgage loan in June

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2015 and replacing it with a variable rate mortgage loan on Westin Copley Place in July 2015, which had a rate of 2.09% as of December 31, 2015. Interest capitalized on renovations increased from \$0.4 million in 2014 to \$0.9 million in 2015 primarily due to various renovation projects throughout the portfolio.

Loss from Extinguishment of Debt

Loss from extinguishment of debt of \$2.5 million in 2014 relates to the write-off of a portion of the unamortized deferred financing costs for the Company's senior unsecured credit facility and First Term Loan. These costs were recorded in connection with the original agreements that were in effect prior to the Company refinancing its senior unsecured credit facility and First Term Loan on January 8, 2014. Loss from extinguishment of debt of \$0.8 million in 2015 relates to the write-off of the unamortized deferred financing costs for the Company's Repaid Term Loan (as defined below) due to its repayment prior to maturity on November 5, 2015.

Income Tax Benefit

Income tax changed by \$3.6 million from an income tax expense of \$2.3 million in 2014 to an income tax benefit of \$1.3 million in 2015. This change is the result of a decrease in LHL's net income before income tax expense of \$8.5 million from a net income before income tax expense of \$3.6 million in 2014 to a net loss before income tax benefit of \$4.9 million in 2015. The 2015 income tax benefit also was impacted by the finalization and related adjustments of the 2014 federal and state tax returns during the 2015 period. For the year ended December 31, 2015, LHL's income tax benefit was calculated using an estimated federal and state tax rate of 42.5%.

Gain on Sale of Properties

The gain on sale of properties of \$93.2 million relates to the sale of Hilton Alexandria Old Town on June 17, 2014 for \$43.5 million and the sale of Hotel Viking on September 10, 2014 for \$49.7 million.

Noncontrolling Interests in Consolidated Entities

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

Noncontrolling Interests of Common Units in Operating Partnership

Noncontrolling interests of common units in Operating Partnership represent the allocation of income or loss of the Operating Partnership to the common units held by third parties based on their weighted average percentage ownership throughout the period. At December 31, 2015, third-party limited partners held 0.1% of the common units in the Operating Partnership.

Distributions to Preferred Shareholders

Distributions to preferred shareholders decreased \$2.1 million from \$14.3 million in 2014 to \$12.2 million in 2015 due to decreased distributions on the Series G Preferred Shares, which were fully redeemed on July 3, 2014.

Issuance Costs of Redeemed Preferred Shares

Issuance costs of redeemed preferred shares of \$1.0 million in 2014 represent the offering costs related to the remaining Series G Preferred Shares, which were all redeemed on July 3, 2014. The excess of fair value over carrying value (i.e. offering costs) is included in the determination of net income attributable to common shareholders.

Non-GAAP Financial Measures

FFO and EBITDA

The Company considers the non-GAAP measures of FFO and EBITDA to be key supplemental measures of the Company's performance and should be considered along with, but not as alternatives to, net income or loss as a measure of the Company's operating performance. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO and EBITDA to be helpful in

evaluating a real estate company's operations.

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

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FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than the Company.

With respect to FFO, the Company believes that excluding the effect of extraordinary items, real estate-related depreciation and amortization and impairments, and the portion of these items related to unconsolidated entities, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance, can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. However, FFO may not be helpful when comparing the Company to non-REITs.

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

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

The following is a reconciliation between net income attributable to common shareholders and FFO attributable to common shareholders and unitholders for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 (in thousands, except share and unit data):

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Net income attributable to common shareholders	\$234,575	\$ 123,383	\$ 197,561	\$ 70,984	\$ 45,146
Depreciation	191,791	180,346	154,585	143,560	123,809
Amortization of deferred lease costs	320	294	347	355	371
Noncontrolling interests:					
Noncontrolling interests in consolidated entities	17	16	16	17	0
Noncontrolling interests of common units in Operating Partnership	337	261	636	303	281
Less: Gain on sale of properties less costs associated with sale of note receivable	(104,478)	0	(93,205)	0	0
FFO attributable to common shareholders and unitholders ⁽¹⁾	\$322,562	\$ 304,300	\$ 259,940	\$ 215,219	\$ 169,607
Weighted average number of common shares and units outstanding:					
Basic	112,937,062	112,885,094	104,485,085	97,337,784	86,054,269
Diluted	113,309,822	113,296,279	104,842,195	97,524,971	86,193,574

⁽¹⁾ FFO attributable to common shareholders and unitholders includes the loss from extinguishment of debt of \$0.8 million and \$2.5 million for the years ended December 31, 2015 and 2014, respectively.

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The following is a reconciliation between net income attributable to common shareholders and EBITDA for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 (in thousands):

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Net income attributable to common shareholders	\$234,575	\$123,383	\$197,561	\$70,984	\$45,146
Interest expense	43,775	54,333	56,628	57,516	52,896
Loss from extinguishment of debt	0	831	2,487	0	0
Income tax expense (benefit)	5,784	(1,292)	2,306	470	9,062
Depreciation and amortization	192,322	180,855	155,035	143,991	124,363
Noncontrolling interests:					
Noncontrolling interests in consolidated entities	17	16	16	17	0
Noncontrolling interests of common units in Operating Partnership	337	261	636	303	281
Distributions to preferred shareholders	18,206	12,169	14,333	17,385	21,733
EBITDA ⁽¹⁾	\$495,016	\$370,556	\$429,002	\$290,666	\$253,481

EBITDA includes the gain on sale of Indianapolis Marriott Downtown of \$104.8 million, offset by \$0.3 million

⁽¹⁾ related to costs associated with the sale of the Mezzanine Loan in 2016. EBITDA includes the gain on sale of Hilton Alexandria Old Town and Hotel Viking of \$43.5 million and \$49.7 million, respectively, in 2014.

The Hotels

The following table sets forth pro forma historical comparative information with respect to occupancy, ADR and RevPAR for the total hotel portfolio for the years ended December 31, 2016 and 2015:

	Year ended December 31,				
	2016	2015	Variance		
Occupancy	83.9 %	81.7 %	2.7	%	
ADR	\$243.12	\$243.69	(0.2)	%	
RevPAR	\$204.08	\$199.18	2.5	%	

For presentation of comparable information, the above hotel statistics reflect pro forma adjustments to include the results of operations of the Park Central San Francisco and The Marker Waterfront Resort under previous ownership for the comparable period in 2015, and exclude the Mason & Rook Hotel for the period the hotel was closed for renovation during the fourth quarter of 2015 through the first quarter of 2016 and the comparable periods in 2015 and 2016. The Indianapolis Marriott Downtown is excluded from all periods presented due to its sale on July 14, 2016. Results for the hotels for periods prior to the Company's ownership, which would include January 1, 2015 through January 22, 2015 for Park Central San Francisco and January 1, 2015 through March 15, 2015 for The Marker Waterfront Resort, were provided by prior owners and have not been adjusted by the Company or audited by its auditors.

Off-Balance Sheet Arrangements

Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of December 31, 2016, the Company held a total of \$15.0 million of restricted cash reserves, \$13.1 million of which was available for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

The Company has no other off-balance sheet arrangements.

Liquidity and Capital Resources

The Company's principal source of cash to meet its cash requirements, including distributions to shareholders, is the operating cash flow from the Company's hotels. Additional sources of cash are the Company's senior unsecured credit facility, LHL's

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unsecured credit facility, additional unsecured financing, secured financing on one or all of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement) as of December 31, 2016, the sale of one or more properties (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership.

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

In addition, cash flow from hotel operations is subject to all operating risks common to the hotel industry. These risks include:

- adverse effects of weak national, regional and local economic conditions;

- tightening credit standards;

- competition for guests and meetings from other hotels and alternative lodging companies, including competition and pricing pressures from Internet wholesalers and distributors;

- increases in operating costs, including wages, benefits, insurance, property taxes and energy, due to inflation and other factors, which may not be offset in the future by increases in room rates;

- labor strikes, union disruptions or lockouts that may impact operating performance;

- dependence on demand from business and leisure travelers, which may fluctuate and be seasonal;

- increases in energy costs, airline fares and other expenses related to travel, which may negatively affect traveling; and

- terrorism, terrorism alerts and warnings, military actions, pandemics or other medical events which may cause decreases in business and leisure travel.

These factors could adversely affect the ability of the hotel operators to generate revenues which could adversely affect LHL's ability to make rental payments to the Company pursuant to the participating leases and ultimately impact the Company's liquidity.

The Company's senior unsecured credit facility, LHL's unsecured credit facility and the Company's term loans contain certain financial covenants relating to net worth requirements, debt ratios and fixed charge coverage and other limitations that restrict its ability to make distributions or other payments to its shareholders upon events of default. There are currently no other contractual or other arrangements limiting payment of distributions by the Operating Partnership.

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

If the Company violates financial and other covenants contained in any of its credit facilities or term loans, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable credit facilities or term loans with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the credit facilities or term loans were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financings. If the Company is unable to refinance its debt on acceptable terms,

including at maturity of the credit facilities and term loans, it may be forced to dispose of hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increases in interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to its shareholders.

As of December 31, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage loan.

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Properties Leased to LHL

Effective January 1, 2001, LHL became a wholly owned subsidiary of the Company as provided for under the TRS provisions of the Code. As of December 31, 2016, LHL leased all 46 hotels owned by the Company as follows:

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

⁽¹⁾ Property sold on January 19, 2017.

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Contractual Obligations

The following is a summary of the Company's obligations and commitments as of December 31, 2016 (in thousands):

Obligations and Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Mortgage loans	\$225,000	\$0	\$ 225,000	\$ 0	\$ 0
Mortgage loans interest ⁽¹⁾	9,548	5,612	3,936	0	0
Borrowings under credit facilities ⁽²⁾	0	0	0	0	0
Credit facilities interest ⁽²⁾	0	0	0	0	0
Ground rents ⁽³⁾	653,758	13,052	26,367	27,272	587,067
Massport Bonds ⁽²⁾	42,500	0	42,500	0	0
Massport Bonds interest ⁽²⁾	374	322	52	0	0
Term loans ⁽⁴⁾	855,000	0	300,000	555,000	0
Term loans interest ⁽⁴⁾	76,420	20,821	39,215	16,384	0
Purchase commitments ⁽⁵⁾					
Purchase orders and letters of commitment	16,231	16,231	0	0	0
Total obligations and commitments	\$1,878,831	\$56,038	\$ 637,070	\$ 598,656	\$ 587,067

⁽¹⁾ Interest expense is calculated based on the variable rate as of December 31, 2016 for Westin Copley Place.

⁽²⁾ Interest expense, if applicable, is calculated based on the variable rate as of December 31, 2016.

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

The term loans bear interest at floating rates equal to LIBOR plus applicable margins. The Company entered into separate interest rate swap agreements for the First Term Loan, resulting in a fixed all-in interest rate of 2.38%, at the Company's current leverage ratio (as defined in the agreements) through August 2, 2017, the interest rate swaps' maturity date. The Company entered into separate interest rate swap agreements for the Second Term Loan, resulting in a fixed all-in interest rate of 2.95% at the Company's current leverage ratio (as defined in the agreements). The \$377.5 million portion of the Second Term Loan is fixed through its maturity date of January 29, 2021 and the \$177.5 million portion of the Second Term Loan is fixed through May 16, 2019, the interest rate swaps' maturity date. It is assumed that the outstanding debt as of December 31, 2016 will be repaid upon maturity with fixed interest-only payments through the swapped periods and interest calculated based on the variable rate as of December 31, 2016 for the unswapped period of the term loans.

As of December 31, 2016, purchase orders and letters of commitment totaling approximately \$16.2 million had been issued for renovations at the properties. The Company has committed to these projects and anticipates making similar arrangements in the future with the existing properties or any future properties that it may acquire.

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Debt Summary

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

Debt	Interest Rate	Maturity Date	Balance Outstanding as of	
			December 31, 2016	December 31, 2015
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$0	\$ 21,000
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			0	21,000
Term loans				
First Term Loan	Floating/Fixed ^(c)	January 2019 ^(c)	300,000	300,000
Second Term Loan	Floating/Fixed ^(c)	January 2021 ^(c)	555,000	555,000
Debt issuance costs, net			(2,242)	(2,797)
Total term loans, net of unamortized debt issuance costs			852,758	852,203
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(45)	(184)
Total bonds payable, net of unamortized debt issuance costs			42,455	42,316
Mortgage loans				
Westin Michigan Avenue	5.75%	- ^(e)	0	131,262
Indianapolis Marriott Downtown	5.99%	- ^(e)	0	96,097
The Roger	6.31%	- ^(f)	0	58,935
Westin Copley Place	Floating ^(g)	August 2018 ^(g)	225,000	225,000
Debt issuance costs, net			(1,506)	(2,490)
Total mortgage loans, net of unamortized debt issuance costs			223,494	508,804
Total debt			\$ 1,118,707	\$ 1,424,323

Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at December 31, 2016. As of December 31, 2015, the rate, including the applicable margin,

^(a) for the Company's outstanding LIBOR borrowing of \$21,000 was 2.13%. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions. On January 10, 2017, the Company refinanced its senior unsecured credit facility resulting in a new maturity date of January 8, 2021, subject to two six-month extension options, pursuant to certain terms and conditions.

Borrowings bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at December 31, 2016 and December 31, 2015. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions. On January 10, 2017, LHL refinanced its unsecured credit facility resulting in a new maturity date of January 10, 2021, subject to two six-month extension options, pursuant to certain terms and conditions.

^(c) Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan and the Second Term Loan. At December 31, 2016 and 2015, the Company had interest rate swaps on the full amounts outstanding. See "Derivative and Hedging Activities" below. At December 31, 2016 and 2015, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 2.38% and 2.95%, respectively, at the Company's current leverage ratio (as defined in the swap agreements). On January 10, 2017, the Company refinanced its First Term Loan resulting in a new maturity date of January 10, 2022. On January 10, 2017, the Company amended and restated its Second Term Loan to match the financial and other covenants in its refinanced First Term Loan and senior

unsecured credit facility. There were no changes to the maturity date.

The Massport Bonds are secured by letters of credit issued by U.S. Bank that were extended to September 2017.

The letters of credit have two one-year extension options, one of which was exercised in July 2016, and are secured^(d) by the Hyatt Regency Boston Harbor. The letters of credit cannot be extended beyond the Massport Bonds' maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of December 31, 2016 were 0.75% and 0.76% for the \$5,400 and \$37,100

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bonds, respectively. The interest rates as of December 31, 2015 were 0.39% and 0.02% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

(e) The Company repaid the mortgage loans on January 4, 2016 through borrowings on its senior unsecured credit facility.

(f) The Company repaid the mortgage loan on February 11, 2016 through borrowings on its senior unsecured credit facility.

The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place's net cash flow (as defined in the loan agreement). The interest rate as of December 31, 2016 was LIBOR plus 1.75%, which equaled 2.46%. The interest rate as of December 31, 2015 was LIBOR plus 1.75%, which equaled 2.09%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

A summary of the Company's interest expense and weighted average interest rates for unswapped borrowings for the years ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Interest Expense:			
Interest incurred	\$40,814	\$52,604	\$54,859
Amortization of debt issuance costs	3,359	2,631	2,169
Capitalized interest	(398)	(902)	(400)
Interest expense	\$43,775	\$54,333	\$56,628

Weighted Average Interest Rates for Unswapped Variable Rate Debt:

Senior unsecured credit facility	2.14	%	1.89	%	1.86	%
LHL unsecured credit facility	2.13	%	1.89	%	1.86	%
Massport Bonds	0.44	%	0.06	%	0.35	%
Mortgage loan (Westin Copley Place)	2.23	%	2.19	%	N/A	

Credit Facilities

On January 10, 2017, the Company refinanced its \$750.0 million senior unsecured credit facility with a syndicate of banks. As amended, the credit facility now matures on January 8, 2021, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of \$750.0 million, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$1.25 billion. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.20% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility.

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

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

may be precluded from paying certain distributions or other payments to its shareholders.

The Company and certain of its subsidiaries guarantee the obligations under the Company's senior unsecured credit facility. While the senior unsecured credit facility does not initially include any pledges of equity interests in the Company's subsidiaries, in connection with the January 10, 2017 refinancing, such pledges and additional subsidiary guarantees would be required in the event that the Company's leverage ratio later exceeds 6.50:1.00 for two consecutive fiscal quarters. In the event that such pledge

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and guarantee requirement is triggered, the pledges and additional guarantees would ratably benefit the Company's senior unsecured credit facility, the First Term Loan and the Second Term Loan. If at any time the Company's leverage ratio falls below 6.50:1.00 for two consecutive fiscal quarters, such pledges and additional guarantees may be released.

Term Loans

On May 16, 2012, the Company entered into a \$177.5 million unsecured term loan (the "Repaid Term Loan") with a seven-year term maturing on May 16, 2019. The Repaid Term Loan bore interest at variable rates. On November 5, 2015, the Company repaid the Repaid Term Loan.

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

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

The Company's term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for all of its term loans (see "Derivative and Hedging Activities" below).

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

Derivative and Hedging Activities

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) ("OCI"). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. Amounts reported in accumulated other comprehensive income (loss) ("AOCI") related to currently outstanding derivatives are recognized as an adjustment to income (loss) as interest payments are made on the Company's variable rate debt. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300.0 million to hedge the variable interest rate on the First Term Loan through August 2, 2017, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at December 31, 2016. As of December 31, 2016, the Company has interest rate swaps with an aggregate notional amount of \$555.0 million to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate swaps with an aggregate notional amount of \$377.5 million to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following table presents the effect of derivative instruments on the Company's consolidated statements of operations and comprehensive income, including the location and amount of unrealized loss on outstanding derivative instruments in cash flow hedging relationships, for the years ended December 31, 2016, 2015 and 2014 (in thousands):

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Amount of Loss Recognized in OCI on Derivative Instruments	Location of Loss Reclassified from AOCI into Net Income	Amount of Loss Reclassified from AOCI into Net Income
(Effective Portion)	(Effective Portion)	(Effective Portion)
For the year ended December 31, 2016 2015 2014		For the year ended December 31, 2016 2015 2014
Derivatives in cash flow hedging relationships:		
Interest rate swaps	Interest expense	
\$ (4,160) \$ (5,682) \$ (8,276)		\$ 6,625 \$ 4,835 \$ 4,410

During the years ended December 31, 2016, 2015 and 2014, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of December 31, 2016, there was \$2.4 million in cumulative unrealized gain of which \$2.4 million was included in AOCI and an immaterial amount was attributable to noncontrolling interests. As of December 31, 2015, there was \$0.1 million in cumulative unrealized loss of which \$0.1 million was included in AOCI and zero was attributable to noncontrolling interests. The Company expects that approximately \$4.9 million will be reclassified from AOCI and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of December 31, 2016.

Extinguishment of Debt

On January 8, 2014, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a loss from extinguishment of debt of \$2.5 million, which is included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2014. As discussed above, on November 5, 2015, the Company repaid the Repaid Term Loan prior to maturity and recognized a loss from extinguishment of debt of \$0.8 million, which is included in the consolidated statements of operations and comprehensive income for the year ended December 31, 2015. The loss from extinguishment of debt represents the unamortized deferred financing costs incurred when the original agreements were executed.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

On January 4, 2016, the Company repaid without fee or penalty the Westin Michigan Avenue mortgage loan in the amount of \$131.3 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in April 2016.

On January 4, 2016, the Company repaid without fee or penalty the Indianapolis Marriott Downtown mortgage loan in the amount of \$96.1 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in July 2016.

On February 11, 2016, the Company repaid without fee or penalty The Roger mortgage loan in the amount of \$58.8 million plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in August 2016.

The Company's mortgage loans contain debt service coverage ratio tests related to the mortgaged properties. If the debt service coverage ratio for a specific property fails to exceed a threshold level specified in the mortgage, cash flows from that hotel may automatically be directed to the lender to (i) satisfy required payments, (ii) fund certain

reserves required by the mortgage and (iii) fund additional cash reserves for future required payments, including final payment. Cash flows may be directed to the lender (“cash trap”) until such time as the property again complies with the specified debt service coverage ratio or the mortgage is paid off.

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Financial Covenants

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

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

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

As of December 31, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage loan.

Fair Value Measurements

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

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

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

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

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

Recurring Measurements

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

Fair Value
Measurements at
December 31,
2016 2015
Using Significant
Other Observable
Inputs (Level 2)

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Description	Consolidated Balance Sheet Location		
Derivative interest rate instruments	Prepaid expenses and other assets	\$3,295	\$ 1,605
Derivative interest rate instruments	Accounts payable and accrued expenses	\$927	\$ 1,702

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

Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$0	\$0	\$80,000	\$80,000
Borrowings under credit facilities	\$0	\$0	\$21,000	\$21,061
Term loans	\$855,000	\$857,224	\$855,000	\$856,038
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$225,000	\$225,224	\$511,294	\$511,786

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 1.8% as of December 31, 2016 and from 1.5% to 4.4% as of December 31, 2015 with a weighted average effective interest rate of 1.5% and 2.1% as of December 31, 2016 and 2015, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At December 31, 2016 and 2015, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

Equity Redemptions, Repurchases and Issuances

On July 3, 2014, the Company redeemed the remaining 2,348,888 Series G Preferred Shares for \$58.7 million (\$25.00 per share), plus accrued and unpaid dividends through the redemption date, July 3, 2014, of \$1.1 million. The redemption value of the Series G Preferred Shares exceeded their carrying value by \$1.0 million, which is included in the determination of net income attributable to common shareholders for the year ended December 31, 2014. The \$1.0 million represents the offering costs related to the redeemed Series G Preferred Shares.

The Company's Board of Trustees previously authorized a share repurchase program (the "Repurchase Program") to acquire up to \$100.0 million of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of December 31, 2016, the Company had availability under the Repurchase Program to acquire up to \$69.8 million of common shares of beneficial interest. In February 2017, the Company's Board of Trustees authorized an expansion of the Repurchase Program to acquire up to an additional \$500.0 million of the Company's common shares of beneficial interest. Including the previous authorization, the Company now has availability under the Repurchase Program to acquire up to \$569.8 million of common shares of beneficial interest as of February 22, 2017. The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

On May 25, 2016, the Company issued 6,000,000 Series J Preferred Shares, \$0.01 par value per share (liquidation preference \$25.00 per share), at a public offering price of \$25.00 per share and received net proceeds, after deducting underwriting discounts and other offering costs, of \$145.1 million. The net proceeds were used to pay down amounts outstanding under the Company's senior unsecured credit facility and for general corporate purposes.

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Sources and Uses of Cash

As of December 31, 2016, the Company had \$134.7 million of cash and cash equivalents and \$15.0 million of restricted cash reserves, \$13.1 million of which was available for future capital expenditures. Additionally, the Company had \$747.5 million available under the Company's senior unsecured credit facility, with \$2.5 million reserved for outstanding letters of credit, and \$25.0 million available under LHL's unsecured credit facility. Net cash provided by operating activities was \$359.3 million for the year ended December 31, 2016 primarily due to the operations of the hotels, which were partially offset by payments for real estate taxes, personal property taxes, insurance and ground rent.

Net cash provided by investing activities was \$154.2 million for the year ended December 31, 2016 primarily due to proceeds from the sale of the Mezzanine Loan and the sale of Indianapolis Marriott Downtown, partially offset by outflows for improvements and additions at the hotels.

Net cash used in financing activities was \$384.5 million for the year ended December 31, 2016 primarily due to net repayments under the credit facilities, mortgage loan repayments, payment of distributions to the common shareholders and unitholders and payment of distributions to preferred shareholders, partially offset by net proceeds from the preferred share offering.

The Company has considered its short-term (one year or less) liquidity needs and the adequacy of its estimated cash flow from operations and other expected liquidity sources to meet these needs. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements, distributions on the preferred shares and the minimum distribution required to maintain the Company's REIT qualification under the Code. The Company anticipates that these needs will be met with available cash on hand, cash flows provided by operating activities, borrowings under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company also considers capital improvements and property acquisitions as short-term needs that will be funded either with cash flows provided by operating activities, utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties) or the issuance of additional debt or equity securities.

The Company expects to meet long-term (greater than one year) liquidity requirements such as property acquisitions, scheduled debt maturities, major renovations, expansions and other nonrecurring capital improvements utilizing availability under the Company's senior unsecured credit facility or LHL's unsecured credit facility, additional unsecured financing, secured financing on any of the Company's 44 unencumbered properties (subject to certain terms and conditions of the credit agreement), potential property sales (subject to certain conditions of the management agreements at four of the Company's properties), estimated cash flows from operations, debt or equity issuances available under the Company's shelf registration statement and issuances of common units in the Operating Partnership. The Company expects to acquire or develop additional hotel properties only as suitable opportunities arise, and the Company will not undertake acquisition or development of properties unless stringent acquisition or development criteria have been achieved.

Reserve Funds

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

Inflation

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

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

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Derivatives and Hedging Activities

In the normal course of business, the Company is exposed to the effects of interest rate changes. The Company limits the risks associated with interest rate changes by following established risk management policies and procedures which may include the use of derivative instruments. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract and are recorded on the balance sheet at fair value, with offsetting changes recorded to other comprehensive income (loss). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. The Company incorporates credit valuation adjustments to reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedging instruments under the accounting requirements for derivatives and hedging.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

The table below provides information about financial instruments that are sensitive to changes in interest rates, including a mortgage obligation, bonds and lines of credit. For debt obligations, scheduled maturities and related weighted average interest rates by expected maturity dates are as follows (in thousands):

	2017	2018	2019	2020	2021	Total
Fixed rate debt	\$0	\$0	\$0	\$0	\$377,500	\$377,500
Weighted average interest	0.00%	0.00%	0.00%	0.00%	2.95%	2.95%
Variable rate debt ⁽¹⁾	\$0	\$267,500	\$300,000	\$0	\$177,500	\$745,000
Weighted average interest	0.00%	2.19%	2.23%	0.00%	2.16%	2.20%
Total	\$0	\$267,500	\$300,000	\$0	\$555,000	\$1,122,500

⁽¹⁾ For the First Term Loan maturing in January 2019 and for \$177.5 million of the Second Term Loan maturing in January 2021, it is assumed that the outstanding debt as of December 31, 2016 will be repaid upon maturity which will be during the unhedged period of the loan and, therefore, subject to a variable interest rate.

The table above presents the principal amount of debt maturing each year through December 31, 2021 and weighted average interest rates for the debt maturing in each specified period. This table reflects indebtedness outstanding as of December 31, 2016 and does not reflect new indebtedness, or revisions to terms of existing indebtedness, incurred after that date. The Company's ultimate exposure to interest rate fluctuations depends on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of adjustment, the ability to prepay or refinance variable rate indebtedness and hedging strategies used to reduce the impact of any increases in rates. As of December 31, 2016, the estimated fair value of the Company's fixed rate debt was \$857.2 million.

The Company is exposed to market risk from changes in interest rates. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs by closely monitoring the Company's variable rate debt and converting such debt to fixed rates when the Company deems such conversion advantageous. From time to time, the Company may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose the Company to the risks that the other parties to the agreements will not perform, the Company could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under GAAP guidance. As of December 31, 2016, \$267.5 million of the Company's aggregate indebtedness (23.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the First Term Loan and Second Term Loan since the Company hedged its variable interest rate to fixed interest rates.

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

of December 31, 2016.

Item 8. Consolidated Financial Statements and Supplementary Data

See Index to Financial Statements on page F-1.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures—The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to the members of senior management and the Board of Trustees.

Based on management's evaluation as of December 31, 2016, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms.

Management's Report on Internal Control Over Financial Reporting—The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Independent Registered Public Accounting Firm's Report on Internal Control Over Financial Reporting—KPMG LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued its report, included herein on page F-3, on the effectiveness of our internal control over financial reporting.

Changes in Internal Controls—There was no change to the Company's internal control over financial reporting during the fourth quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Trustees, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the material in the Proxy Statement.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the material in the Proxy Statement.

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

The information required by this item is incorporated by reference to the material in the Proxy Statement.

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

The information required by this item is incorporated by reference to the material in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the material in the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

Included herein at pages F-1 through F-42.

2. Financial Statement Schedules

The following financial statement schedule is included herein at pages F-43 through F-44.

Schedule III – Real Estate and Accumulated Depreciation

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.

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3.Exhibits

The following exhibits are filed as part of this Annual Report on Form 10-K:

Exhibit Number	Description of Exhibit
3.1	LaSalle Hotel Properties Articles of Amendment and Restatement of Declaration of Trust (including all articles of amendment and articles supplementary) ⁽¹⁾
3.2	LaSalle Hotel Properties Third Amended and Restated Bylaws ⁽²⁾
4.1	Form of Common Share of Beneficial Interest ⁽³⁾
10.1	Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of April 29, 1998 ⁽⁴⁾
10.2	First Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of March 6, 2002 ⁽⁵⁾
10.3	Second Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of September 30, 2003 ⁽⁶⁾
10.4	Form of Third Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of August 31, 2005 ⁽⁷⁾
10.5	Fourth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of August 22, 2005 ⁽⁸⁾
10.6	Fifth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of February 8, 2006 ⁽⁹⁾
10.7	Form of Sixth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of November 17, 2006 ⁽¹⁰⁾
10.8	Seventh Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of November 17, 2006 ⁽¹¹⁾
10.9	Eighth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of April 15, 2009 ⁽¹²⁾
10.10	Ninth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of January 24, 2011 ⁽¹³⁾
10.11	Tenth Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of March 4, 2013 ⁽¹⁴⁾
10.12	Eleventh Amendment to the Amended and Restated Agreement of Limited Partnership of LaSalle Hotel Operating Partnership, L.P., dated as of May 25, 2016 ⁽²³⁾
10.13	Form of Management Agreement ⁽³⁾

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- 10.14 Form of Lease with Affiliated Lessees⁽³⁾
- 10.15 Form of First Amendment to Lease with Affiliated Lessee⁽¹⁵⁾
- 10.16 Form of Second Amendment to Lease with Affiliate Lessee⁽¹⁵⁾
- 10.17 LaSalle Hotel Properties 1998 Share Option and Incentive Plan, as amended through April 21, 2005^{(16)*}
- 10.18 LaSalle Hotel Properties 2009 Equity Incentive Plan^{(17)*}
- 10.19 LaSalle Hotel Properties 2014 Equity Incentive Plan^{(18)*}
- 10.20 Amendment to the LaSalle Hotel Properties 2014 Equity Incentive Plan^{(19)*}
- 10.21 LaSalle Hotel Properties Trustee Fee Deferral Program^{(20)*}
- 10.22 Form of Restricted Share Agreement^{(21)*}
- 10.23 Form of Performance-Based Share Award Agreement^{(21)*}
- 10.24 Amended and Restated Change in Control Severance Agreement between Michael D. Barnello and LaSalle Hotel Properties effective October 19, 2009^{(22)*}

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Exhibit Number	Description of Exhibit
10.25	Change in Control Severance Agreement between Alfred L. Young, Jr. and LaSalle Hotel Properties effective November 3, 2009 ^{(22)*}
10.26	Change in Control Severance Agreement between Kenneth G. Fuller and LaSalle Hotel Properties effective April 25, 2016 ^{(1)*}
10.27	Offer Letter to Michael D. Barnello, dated May 31, 2008 ^{(24)*}
10.28	Offer Letter to Alfred L. Young, Jr., dated September 29, 2009 ^{(25)*}
10.29	Offer Letter to Kenneth G. Fuller, dated March 23, 2016 ^{(26)*}
10.30	Form of LaSalle Hotel Properties Indemnification Agreement ^{(27)*}
10.31	Second Amended and Restated Senior Unsecured Credit Agreement, dated January 10, 2017, among LaSalle Hotel Operating Partnership, L.P., LaSalle Hotel Properties, and Citibank, N.A., as Administrative Agent, and the other lenders named therein
10.32	Senior Unsecured Term Loan Agreement, dated as of November 5, 2015, among LaSalle Hotel Operating Partnership, L.P., LaSalle Hotel Properties, and Citibank, N.A., as Administrative Agent, and the other lenders named therein ⁽²⁸⁾
10.33	Amended and Restated Senior Unsecured Term Loan Agreement, dated as of January 10, 2017, among LaSalle Hotel Operating Partnership, L.P., LaSalle Hotel Properties, and Citibank, N.A., as Administrative Agent, and the other lenders named therein
12.1	Computation of the Registrant's Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends
21.1	List of Subsidiaries
23.1	Consent of KPMG LLP
24.1	Power of Attorney (included in Part IV of this Annual Report on Form 10-K)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from LaSalle Hotel Properties' Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 22, 2017, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements

*Represents management contract or compensatory plan or agreement.

- (1) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on July 20, 2016 and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on February 1, 2010 and incorporated herein by reference.
- (3) Previously filed as an exhibit to Amendment No. 1 to the Registrant's Registration Statement on Form S-11 (No. 333-45647) filed with the SEC on April 2, 1998 and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q (No. 001-14045) filed with the SEC on August 14, 1998 and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on March 12, 2002 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Registrant's Annual report on Form 10-K filed with the SEC on February 23, 2006 and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on August 16, 2005 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on August 24, 2005 and incorporated herein by reference.

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- (9) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on February 9, 2006 and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 28, 2006 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2006 and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on April 17, 2009 and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on January 24, 2011 and incorporated herein by reference.
- (14) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on March 4, 2013 and incorporated herein by reference.
- (15) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q (No. 001-14045) filed with the SEC on May 12, 1999 and incorporated herein by reference.
- (16) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-8 (No. 333-125058) filed with the SEC on May 19, 2005 and incorporated herein by reference.
- (17) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-8 (No. 333-158873) filed with the SEC on April 28, 2009 and incorporated herein by reference.
- (18) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on May 9, 2014 and incorporated herein by reference.
- (19) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on January 28, 2015 and incorporated herein by reference.
- (20) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-8 (No. 333-196411) filed with the SEC on May 30, 2014 and incorporated herein by reference.
- (21) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on April 23, 2014 and incorporated herein by reference.
- (22) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2010 and incorporated herein by reference.
- (23) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on May 25, 2016 and incorporated herein by reference.
- (24) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on June 2, 2008 and incorporated herein by reference.
- (25) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on October 6, 2009 and incorporated herein by reference.
- (26) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on April 1, 2016 and incorporated herein by reference.
- (27) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on November 12, 2008 and incorporated herein by reference.
- (28) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on November 9, 2015 and incorporated herein by reference.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LASALLE HOTEL PROPERTIES

Date: February 22, 2017 BY: /s/ KENNETH G. FULLER

Kenneth G. Fuller

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and trustees of LaSalle Hotel Properties, hereby severally constitute Michael D. Barnello, Kenneth G. Fuller and Alfred L. Young, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and trustees to enable LaSalle Hotel Properties to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

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

Date	Signature	
February 22, 2017	/s/ MICHAEL D. BARNELLO Michael D. Barnello	Trustee, President and Chief Executive Officer (Principal Executive Officer)
February 22, 2017	/s/ DENISE M. COLL Denise M. Coll	Trustee
February 22, 2017	/s/ JEFFREY T. FOLAND Jeffrey T. Foland	Trustee
February 22, 2017	/s/ DARRYL HARTLEY-LEONARD Darryl Hartley-Leonard	Trustee
February 22, 2017	/s/ JEFFREY L. MARTIN Jeffrey L. Martin	Trustee
February 22, 2017	/s/ STUART L. SCOTT Stuart L. Scott	Chairman of the Board of Trustees
February 22, 2017	/s/ DONALD A. WASHBURN Donald A. Washburn	Trustee

February 22,
2017

/s/ KENNETH G. FULLER
Kenneth G. Fuller

Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

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LASALLE HOTEL PROPERTIES

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees

LaSalle Hotel Properties:

We have audited the accompanying consolidated balance sheets of LaSalle Hotel Properties and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule III. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

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

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

/s/ KPMG LLP

Chicago, Illinois

February 22, 2017

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees

LaSalle Hotel Properties:

We have audited LaSalle Hotel Properties' (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). LaSalle Hotel Properties' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, LaSalle Hotel Properties maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LaSalle Hotel Properties and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 22, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chicago, Illinois

February 22, 2017

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LASALLE HOTEL PROPERTIES

Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2016	December 31, 2015
Assets:		
Investment in hotel properties, net (Note 3)	\$ 3,672,209	\$ 3,817,676
Note receivable (Note 3)	0	80,000
Property under development (Note 3)	21,078	54,066
Assets held for sale (Note 13)	23,283	0
Cash and cash equivalents	134,652	5,700
Restricted cash reserves (Note 5)	15,035	26,443
Hotel receivables (net of allowance for doubtful accounts of \$279 and \$355, respectively)	35,403	39,038
Debt issuance costs for borrowings under credit facilities, net	1,699	3,347
Deferred tax assets (Note 9)	1,902	3,566
Prepaid expenses and other assets	38,818	39,510
Total assets	\$ 3,944,079	\$ 4,069,346
Liabilities:		
Borrowings under credit facilities (Note 4)	\$ 0	\$ 21,000
Term loans, net of unamortized debt issuance costs (Note 4)	852,758	852,203
Bonds payable, net of unamortized debt issuance costs (Note 4)	42,455	42,316
Mortgage loans, net of unamortized debt issuance costs (Note 4)	223,494	508,804
Accounts payable and accrued expenses	171,965	181,854
Liabilities of assets held for sale (Note 13)	247	0
Advance deposits	33,232	28,471
Accrued interest	2,209	3,276
Distributions payable	56,360	53,939
Total liabilities	1,382,720	1,691,863
Commitments and contingencies (Note 5)		
Equity:		
Shareholders' Equity:		
Preferred shares of beneficial interest, \$0.01 par value (liquidation preference of \$328,750 and \$178,750, respectively), 40,000,000 shares authorized; 13,150,000 and 7,150,000 shares issued and outstanding, respectively (Note 6)	132	72
Common shares of beneficial interest, \$0.01 par value, 200,000,000 shares authorized; 113,115,442 shares issued and 113,088,074 shares outstanding, and 113,115,442 shares issued and 112,959,547 shares outstanding, respectively (Note 6)	1,131	1,131
Treasury shares, at cost (Note 6)	(739)	(4,798)
Additional paid-in capital, net of offering costs of \$85,223 and \$80,205, respectively	2,830,740	2,684,010
Accumulated other comprehensive income (loss) (Note 4)	2,365	(97)
Distributions in excess of retained earnings	(275,564)	(306,051)
Total shareholders' equity	2,558,065	2,374,267
Noncontrolling Interests:		
Noncontrolling interests in consolidated entities	17	18
Noncontrolling interests of common units in Operating Partnership (Note 6)	3,277	3,198
Total noncontrolling interests	3,294	3,216
Total equity	2,561,359	2,377,483

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Total liabilities and equity	\$ 3,944,079	\$ 4,069,346
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The accompanying notes are an integral part of these consolidated financial statements.

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except share data)

	For the year ended December 31,		
	2016	2015	2014
Revenues:			
Hotel operating revenues:			
Room	\$867,882	\$849,523	\$773,801
Food and beverage	259,658	274,286	253,656
Other operating department	93,072	84,782	74,000
Total hotel operating revenues	1,220,612	1,208,591	1,101,457
Other income	7,007	7,993	8,321
Total revenues	1,227,619	1,216,584	1,109,778
Expenses:			
Hotel operating expenses:			
Room	226,349	215,944	196,952
Food and beverage	179,637	190,069	183,530
Other direct	16,978	17,514	23,800
Other indirect (Note 8)	305,265	301,004	264,508
Total hotel operating expenses	728,229	724,531	668,790
Depreciation and amortization	192,322	180,855	155,035
Real estate taxes, personal property taxes and insurance	63,406	65,438	57,805
Ground rent (Note 5)	16,187	16,076	14,667
General and administrative	26,529	25,197	23,832
Acquisition transaction costs (Note 3)	0	499	2,379
Other expenses	6,283	17,225	7,369
Total operating expenses	1,032,956	1,029,821	929,877
Operating income	194,663	186,763	179,901
Interest income	3,553	2,938	1,812
Interest expense	(43,775)	(54,333)	(56,628)
Loss from extinguishment of debt (Note 4)	0	(831)	(2,487)
Income before income tax (expense) benefit	154,441	134,537	122,598
Income tax (expense) benefit (Note 9)	(5,784)	1,292	(2,306)
Income before net gain on sale of properties and sale of note receivable	148,657	135,829	120,292
Net gain on sale of properties and sale of note receivable (Note 3)	104,478	0	93,205
Net income	253,135	135,829	213,497
Net income attributable to noncontrolling interests:			
Noncontrolling interests in consolidated entities	(17)	(16)	(16)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(337)	(261)	(636)
Net income attributable to noncontrolling interests	(354)	(277)	(652)
Net income attributable to the Company	252,781	135,552	212,845
Distributions to preferred shareholders	(18,206)	(12,169)	(14,333)
Issuance costs of redeemed preferred shares (Note 6)	0	0	(951)
Net income attributable to common shareholders	\$234,575	\$123,383	\$197,561

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Operations and Comprehensive Income - Continued

(in thousands, except share data)

	For the year ended December 31,		
	2016	2015	2014
Earnings per Common Share - Basic (Note 11):			
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$2.07	\$ 1.09	\$ 1.89
Earnings per Common Share - Diluted (Note 11):			
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$2.07	\$ 1.09	\$ 1.88
Weighted average number of common shares outstanding:			
Basic	112,791,839	12,685,235	104,188,785
Diluted	113,164,599	13,096,420	104,545,895
Comprehensive Income:			
Net income	\$253,135	\$ 135,829	\$ 213,497
Other comprehensive income:			
Unrealized loss on interest rate derivative instruments (Note 4)	(4,160)	(5,682)	(8,276)
Reclassification adjustment for amounts recognized in net income (Note 4)	6,625	4,835	4,410
	255,600	134,982	209,631
Comprehensive income attributable to noncontrolling interests:			
Noncontrolling interests in consolidated entities	(17)	(16)	(16)
Noncontrolling interests of common units in Operating Partnership (Note 6)	(340)	(259)	(625)
Comprehensive income attributable to noncontrolling interests	(357)	(275)	(641)
Comprehensive income attributable to the Company	\$255,243	\$ 134,707	\$ 208,990
The accompanying notes are an integral part of these consolidated financial statements.			

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Equity

(in thousands, except per share/unit data)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests in Consolidated Entities	Noncontrolling Interests in Common Operating Partnership	Total Noncontrolling Interests	Total Equity
Balance, December 31, 2013	\$95	\$1,039	\$(14)	\$2,379,246	\$4,603	\$(281,578)	\$2,103,391	\$18	\$6,054	\$6,072	\$2,109,463
Issuance of shares, net of offering costs	0	88	0	348,987	0	0	349,075	0	0	0	349,075
Redemption of preferred shares	(23)	0	0	(57,757)	0	(951)	(58,731)	0	0	0	(58,731)
Repurchase of common shares into treasury	0	0	(2,936)	0	0	0	(2,936)	0	0	0	(2,936)
Deferred compensation, net	0	0	2,812	3,809	0	0	6,621	0	0	0	6,621
Adjustments to noncontrolling interests	0	0	0	(397)	0	0	(397)	0	397	397	0
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(314)	(314)	0	0	0	(314)
Distributions on common shares/units (\$1.41 per share/unit)	0	0	0	0	0	(149,657)	(149,657)	0	(416)	(416)	(150,073)
Distributions on preferred shares	0	0	0	0	0	(14,333)	(14,333)	(17)	0	(17)	(14,350)
Net income	0	0	0	0	0	212,845	212,845	16	636	652	213,497
Other comprehensive income:											
Unrealized loss on interest rate derivative	0	0	0	0	(8,252)	0	(8,252)	0	(24)	(24)	(8,276)

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instruments												
Reclassification												
adjustment for												
amounts	0	0	0	0	4,397	0	4,397	0	13	13	4,410	
recognized in												
net income												
Balance,												
December 31,	\$72	\$1,127	\$(138	)	\$2,673,888	\$748	\$(233,988)	\$2,441,709	\$17	\$6,660	\$6,677	\$2,448,386
2014												
Issuance of												
shares, net of	0	2	955	838	0	0	1,795	0	0	0	1,795	
offering costs												
Repurchase of												
common shares	0	0	(7,424	)	0	0	(7,424	)	0	0	0	(7,424
into treasury)
Unit												
conversion	0	2	0	3,398	0	0	3,400	0	(3,400	)	(3,400)
Deferred												
compensation,	0	0	1,809	5,872	0	0	7,681	0	0	0	7,681	
net												
Adjustments to												
noncontrolling	0	0	0	14	0	0	14	0	(14	)	(14)
interests												
Distributions												
on earned												
shares from	0	0	0	0	0	(334	)	(334	)	0	0	(334
share awards)
with market												
conditions												
Distributions												
on common												
shares/units	0	0	0	0	0	(195,112	)	(195,112	)	0	(307)
(\$1.73 per)
share/unit)												
Distributions												
on preferred	0	0	0	0	0	(12,169	)	(12,169	)	(15	)	0
shares												(15
)
												(12,184
)
Net income	0	0	0	0	0	135,552	135,552	16	261	277	135,829	
Other												
comprehensive												
income:												
Unrealized loss												
on interest rate	0	0	0	0	(5,668	)	0	(5,668	)	0	(14)
derivative												(14
instruments)
Reclassification												
adjustment for												
amounts	0	0	0	0	4,823	0	4,823	0	12	12	4,835	
recognized in												
net income												
	\$72	\$1,131	\$(4,798)		\$2,684,010	\$(97)	\$(306,051)	\$2,374,267	\$18	\$3,198	\$3,216
												\$2,377,483

Balance,
December 31,
2015

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Equity - Continued

(in thousands, except per share/unit data)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Treasury Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Noncontrolling Interest in Consolidated Entities	Noncontrolling Interest in Common Operating Partnership	Total Noncontrolling Interests	Total Equity
Issuance of shares, net of offering costs	60	0	3,196	142,206	0	0	145,462	0	0	0	145,462
Repurchase of common shares into treasury	0	0	(2,145)	0	0	0	(2,145)	0	0	0	(2,145)
Deferred compensation, net	0	0	3,008	4,524	0	0	7,532	0	0	0	7,532
Distributions on earned shares from share awards with market conditions	0	0	0	0	0	(365)	(365)	0	0	0	(365)
Distributions on common shares/units (\$1.80 per share/unit)	0	0	0	0	0	(203,723)	(203,723)	0	(261)	(261)	(203,984)
Distributions on preferred shares	0	0	0	0	0	(18,206)	(18,206)	(18)	0	(18)	(18,224)
Net income	0	0	0	0	0	252,781	252,781	17	337	354	253,135
Other comprehensive income:											
Unrealized loss on interest rate derivative instruments	0	0	0	0	(4,155)	0	(4,155)	0	(5)	(5)	(4,160)
Reclassification adjustment for amounts recognized in	0	0	0	0	6,617	0	6,617	0	8	8	6,625

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net income

Balance,

December 31, \$ 132 \$1,131 \$(739) \$2,830,740 \$2,365 \$(275,564) \$2,558,065 \$17 \$3,277 \$3,294 \$2,561,359
2016

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

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LASALLE HOTEL PROPERTIES

Consolidated Statements of Cash Flows

(in thousands)

	For the year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$253,135	\$135,829	\$213,497
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	192,322	180,855	155,035
Amortization of debt issuance costs, mortgage premium and note receivable discount	3,359	2,631	1,142
Loss from extinguishment of debt	0	831	2,487
Net gain on sale of properties and sale of note receivable	(104,478)	0	(93,205)
Amortization of deferred compensation	7,532	7,681	6,621
Deferred income tax expense (benefit)	1,664	(1,734)	(335)
Allowance for doubtful accounts	(76)	55	(44)
Other	221	466	404
Changes in assets and liabilities:			
Restricted cash reserves	3,079	2,332	(912)
Hotel receivables	417	(7,384)	(177)
Prepaid expenses and other assets	(1,448)	(4,965)	(940)
Accounts payable and accrued expenses	(174)	14,416	(1,581)
Advance deposits	4,765	6,959	1,343
Accrued interest	(1,067)	(453)	(99)
Net cash provided by operating activities	359,251	337,519	283,236
Cash flows from investing activities:			
Additions to properties	(88,437)	(129,963)	(97,526)
Improvements to properties	(14,082)	(12,965)	(4,583)
Acquisition of properties	0	(439,157)	(191,111)
Deposit on acquisition	0	25,000	(25,000)
Purchase of office furniture and equipment	(37)	(143)	(799)
Acquisition of note receivable	0	(80,000)	0
Repayment of note receivable	0	0	72,000
Proceeds from sale of note receivable	79,712	0	0
Restricted cash reserves	8,329	(7,205)	(934)
Proceeds from sale of properties	166,665	0	167,838
Property insurance proceeds	2,004	2,431	2,114
Net cash provided by (used in) investing activities	154,154	(642,002)	(78,001)
Cash flows from financing activities:			
Borrowings under credit facilities	431,496	830,807	537,828
Repayments under credit facilities	(452,496)	(809,807)	(758,434)
Borrowings on term loan	0	555,000	0
Repayments of term loan	0	(177,500)	0
Proceeds from mortgage loan	0	225,000	0
Repayments of mortgage loans	(286,294)	(214,796)	(13,325)
Payment of debt issuance costs	(33)	(5,716)	(5,170)
Purchase of treasury shares	(2,145)	(7,424)	(2,936)
Proceeds from issuance of preferred shares	150,000	0	0

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Payment of preferred offering costs	(4,922) 0	0
Proceeds from issuance of common shares	0	0	352,222
Payment of common offering costs	(96	) (251	) (3,557)
Distributions on earned shares from share awards with market conditions	(365	) (334	) (314)
Redemption of preferred shares	0	0	(58,722)
Distributions on preferred shares	(15,861	) (12,184	) (15,413)
Distributions on common shares/units	(203,737	) (186,743	) (136,671)
Net cash (used in) provided by financing activities	(384,453	) 196,052	(104,492)
Net change in cash and cash equivalents	128,952	(108,431	) 100,743
Cash and cash equivalents, beginning of year	5,700	114,131	13,388
Cash and cash equivalents, end of year	\$134,652	\$5,700	\$114,131

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

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LASALLE HOTEL PROPERTIES

Notes to Consolidated Financial Statements

(in thousands, except share/unit data)

1. Organization

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

As of December 31, 2016, the Company owned interests in 46 hotels with approximately 11,450 guest rooms located in nine states and the District of Columbia. Each hotel is leased to LHL (see Note 8) under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a participating rent based on hotel revenues. The LHL leases expire between December 2017 and December 2019. Lease revenue from LHL is eliminated in consolidation. A third-party non-affiliated hotel operator manages each hotel pursuant to a hotel management agreement.

Substantially all of the Company’s assets are held directly or indirectly by, and all of its operations are conducted through, LaSalle Hotel Operating Partnership, L.P. (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. The Company owned, through a combination of direct and indirect interests, 99.9% of the common units of the Operating Partnership at December 31, 2016. The remaining 0.1% is held by limited partners who held 145,223 common units of the Operating Partnership at December 31, 2016. See Note 6 for additional disclosures related to common units of the Operating Partnership.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Risks and Uncertainties

The state of the overall economy can significantly impact hotel operational performance and thus, impact the Company’s financial position. Should any of the hotels experience a significant decline in operational performance, it may affect the Company’s ability to make distributions to its shareholders, service debt or meet other financial obligations.

Investment in Hotel Properties

Upon acquisition, the Company determines the fair value of the acquired long-lived assets, assumed debt and intangible assets and liabilities. The Company’s investments in hotel properties are carried at cost and depreciated using the straight-line method over an estimated useful life of 30 to 40 years for buildings, 15 years for building improvements, the shorter of the useful life of the improvement or the term of the related tenant lease for tenant improvements, 7 years for land improvements, 20 years for golf course land improvements, 20 years for swimming pool assets and 3 to 5 years for furniture, fixtures and equipment. For investments subject to land and building leases that qualify as capital leases, assets are recorded at the estimated fair value of the right to use the leased property at acquisition and depreciated over the shorter of the useful lives of the assets or the term of the respective lease. Renovations and/or replacements that improve or extend the life of the asset are capitalized and depreciated over their

estimated useful lives.

The Company is required to make subjective assessments as to the useful lives and classification of its properties for purposes of determining the amount of depreciation expense to reflect each year with respect to those properties.

These assessments have

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a direct impact on the Company's net income. Should the Company change the expected useful life or classification of particular assets, it would result in a change in depreciation expense and annual net income.

The Company reviews each hotel for impairment at the end of each reporting period or as events and circumstances dictate throughout the year. A property is considered impaired when the sum of estimated future undiscounted cash flows over the estimated remaining holding period is less than the carrying amount of a property.

At the end of each reporting period, the Company assesses whether any quantitative or qualitative triggering events have occurred in relation to a property. Examples of situations considered to be triggering events include:

- a substantial decline in operating cash flows during the period, including declines related to decreased occupancy, average daily rate or revenue per available room;

- a current or projected loss from operations;

- a significant cost accumulation above the original acquisition/development estimate;

- a change in plan to sell the property prior to the end of its useful life or holding period;

- a significant decrease in market price not in line with general market trends; and

- any other quantitative or qualitative events deemed significant by the Company's management or the Company's Board of Trustees.

If the presence of one or more triggering events as described above is identified at the end of a reporting period or throughout the year with respect to a hotel, the Company performs a recoverability test. In doing so, an estimate of undiscounted future cash flows over the estimated remaining holding period is compared to the carrying amount of the hotel.

Impairment is indicated if the results of a recoverability analysis indicate that the carrying amount of a hotel exceeds the estimated future undiscounted cash flows. An impairment charge is recorded equal to the excess of the carrying value of the hotel over the fair value. When determining the fair value of a property, the Company makes certain assumptions including, but not limited to, consideration of:

- projected operating cash flows – considering factors such as booking pace, growth rates, occupancy, room rates, property-specific operating costs and future capital expenditures;

- projected cash flows from the eventual disposition of the hotel based upon the Company's estimation of a property-specific capitalization rate;

- property-specific discount rates; and

- comparable selling prices.

The Company considers a hotel as held for sale when a contract for sale is entered into, a substantial nonrefundable deposit has been received from the purchaser and sale is expected to occur within one year.

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

Intangible Assets

The Company does not amortize intangible assets with indefinite useful lives. Non-amortizable intangible assets are reviewed annually for impairment and more frequently if events or circumstances indicate that the assets may be impaired. If a non-amortizable intangible asset is subsequently determined to have a finite useful life, the intangible asset will be written down to the lower of its fair value or carrying amount and then amortized prospectively, based on the remaining useful life of the intangible asset. As of December 31, 2016 and 2015, the Company did not have amortizable intangible assets or any value attributed to such non-amortizable intangible assets in the accompanying consolidated balance sheets.

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Derivatives and Hedging Activities

In the normal course of business, the Company is exposed to the effects of interest rate changes. The Company limits the risks associated with interest rate changes by following established risk management policies and procedures which may include the use of derivative instruments. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract and are recorded on the balance sheet at fair value, with offsetting changes recorded to other comprehensive income (loss). Ineffective portions of changes in the fair value of a cash flow hedge are recognized as interest expense. The Company incorporates credit valuation adjustments to reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedging instruments under the accounting requirements for derivatives and hedging.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Restricted Cash Reserves

The Company classifies certain cash balances as restricted cash reserves, including (i) reserve funds relating to the hotels with leases or operating agreements requiring the Company to maintain restricted cash to fund future capital expenditures, (ii) cash deposited in mortgage escrow accounts pursuant to mortgage obligations to pre-fund a portion of certain operating expenses and debt payments and (iii) cash held by insurance and management companies on the Company's behalf to be refunded or applied to future liabilities.

Debt Issuance Costs

Issuance costs related to long-term debt are recorded at cost and are amortized as interest expense over the life of the related debt instrument, unless there is a significant modification to the debt instrument. The debt issuance costs, net associated with the revolving credit facilities are included in assets and the other debt issuance costs, net are included with the applicable debt instrument. Accumulated amortization at December 31, 2016 and 2015 was \$7,642 and \$5,109, respectively.

Revenue Recognition

The Company recognizes hotel operating revenues on an accrual basis consistent with hotel operations. For retail operations, revenue is recognized on a straight line basis over the lives of the retail leases. Revenue from retail operations is included in other income in the accompanying consolidated statements of operations and comprehensive income. Refer to "Recently Issued Accounting Pronouncements" below for further discussion of revenue recognition.

Participating Leases

The participating leases have non-cancelable terms of three years (from commencement), subject to earlier termination upon the occurrence of certain contingencies, as defined. Each participating lease requires LHL to pay the Operating Partnership or subsidiary the greater of (i) base rent in a fixed amount or (ii) participating rent based on certain percentages of room revenue, food and beverage revenue, telephone revenue and other revenue at the applicable hotel. Participating rent applicable to room and other hotel revenues varies by lease and is calculated by multiplying fixed percentages by the total amounts of such revenues over specified quarterly threshold amounts. Both the base rent and the participating rent thresholds used in computing percentage rents applicable to room and other hotel revenues, including food and beverage revenues, are subject to annual adjustments based on increases in the United States Consumer Price Index published by the Bureau of Labor Statistics of the United States of America Department of Labor, U.S. City Average, Urban Wage Earners and Clerical Workers. Lease revenue from LHL is eliminated in consolidation.

Share-Based Compensation

From time to time, the Company awards shares under the 2014 Equity Incentive Plan, as amended ("2014 Plan"), which has approximately seven years remaining, as compensation to executives, employees and members of the Board of

Trustees (see Note 7). The shares issued to executives and employees generally vest over three years. The shares issued to members of the Board of Trustees vest immediately upon issuance. The Company recognizes compensation expense for nonvested shares with service conditions or service and market conditions on a straight-line basis over the vesting period based upon the fair value of the shares on the date of issuance, adjusted for forfeitures. Compensation expense for nonvested shares with service and performance

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conditions is recognized based on the fair value of the estimated number of shares expected to vest, as revised throughout the vesting period, adjusted for forfeitures. The 2014 Plan replaced the 2009 Equity Incentive Plan (“2009 Plan”) in May 2014.

Noncontrolling Interests

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

However, the Company’s noncontrolling interests that are redeemable for cash or other assets at the option of the holder, not solely within the control of the issuer, must be classified outside of permanent equity. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether the Company controls the actions or events necessary to issue the maximum number of shares that could be required to be delivered under share settlement of the contract. As of December 31, 2016, the consolidated results of the Company include the following ownership interests held by owners other than the Company: (i) the common units in the Operating Partnership held by third parties, (ii) the outside preferred ownership interests in a subsidiary and (iii) the outside ownership interest in a joint venture.

Variable Interest Entities

In 2016, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The Company evaluated the application of ASU No. 2015-02 and concluded that no change was required to its accounting of its interests in less than wholly owned joint ventures, however, the Operating Partnership now meets the criteria as a variable interest entity. The Company’s significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Company’s debt is an obligation of the Operating Partnership.

Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1998. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its shareholders. It is the Company’s current intention to adhere to these requirements and maintain the Company’s qualification for taxation as a REIT. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income from non-REIT activities managed through a TRS is subject to federal, state and local income taxes. As a wholly owned TRS of the Company, LHL is required to pay income taxes at the applicable federal, state and local rates.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. However, deferred tax assets are

recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. The Company's deferred tax assets balance consists primarily of net operating loss carryforwards (see Note 9).

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Earnings per Common Share

Basic earnings per common share is based on the weighted average number of common shares of beneficial interest outstanding during the year excluding the weighted average number of unvested restricted shares (“participating securities” as defined in Note 11). The basic earnings per share calculation excludes the effect of such participating securities. Diluted earnings per common share is based on the basic weighted average number of common shares of beneficial interest outstanding plus the effect of in-the-money stock options and compensation-related shares. Any anti-dilutive shares are excluded from the diluted earnings per share calculation.

Comprehensive Income

The purpose of reporting comprehensive income is to report a measure of all changes in equity of an entity that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. Comprehensive income consists of all components of income, including other comprehensive income, which is excluded from net income. For the years ended December 31, 2016, 2015 and 2014, comprehensive income was \$255,600, \$134,982 and \$209,631, respectively. As of December 31, 2016, the Company’s accumulated other comprehensive income was \$2,365 and, as of December 31, 2015, the Company’s accumulated other comprehensive loss was \$97.

Notes Receivable

Notes receivable are carried at cost, net of any premiums or discounts which are recognized as an adjustment of yield over the remaining life of the note using the effective interest method. Any costs related to notes receivable are expensed as incurred. Interest income is recorded on the accrual basis consistent with the terms of the notes receivable. A note is deemed to be impaired when, based on current information and events, including a review of factors that would impact the fair value of the underlying collateral, it is probable that the Company will be unable to collect all principal and interest contractually due. The Company considers current and projected cash flow, historical payment patterns, general and industry specific economic factors and operating results in determining the probability of default. Interest previously accrued but not collected becomes part of the Company’s recorded investment in the note receivable for purposes of assessing impairment. The Company applies interest payments received on non-accrual notes receivable first to accrued interest and then as interest income. Notes receivable return to accrual status when contractually current and the collection of future payments is reasonably assured.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures by working with its hotel operators to analyze its revenue streams and to update its accounting policies. The Company continues to evaluate each of its revenue streams under the new model and because of the short-term, day-to-day nature of the Company’s hotel revenues the pattern of revenue recognition is not expected to change significantly. Additionally, the Company has historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, does not expect ASU No. 2014-09 to significantly impact the recognition of hotel sales. The Company does not believe ASU No. 2014-09 will have a material impact on its consolidated financial statements and related disclosures and will adopt the new standard on its effective date of January 1, 2018 under the cumulative effect transition method.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the debt liability. The Company adopted ASU No. 2015-03 effective January 1, 2016 and applied its provisions retrospectively. The adoption of this standard only affects the presentation of the Company’s consolidated balance sheets.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not initial direct

leasing costs. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The Company is analyzing its current ground lease obligations and anticipates recording assets and liabilities on its consolidated balance sheets associated with the ground lease obligations under ASU No. 2016-02.

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In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Award Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold up to the maximum individual statutory tax rate the shares upon settlement of an award without causing the award to be classified as liability. The new standard is effective for the Company on January 1, 2017. Early adoption is permitted. The Company early adopted this standard on July 1, 2016 and it did not have an effect on the Company's consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements, which requires companies to measure credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This standard will be effective for the first annual period beginning after December 15, 2019, including interim periods within those periods. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial statements and related disclosures.

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. This standard will be effective for the first annual reporting period beginning after December 15, 2017. The Company is evaluating the effect that ASU No. 2016-15 will have on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-18 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business and adds further guidance in evaluating whether a transaction should be accounted for as an acquisition of an asset or a business. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company is evaluating the effect that ASU No. 2017-01 will have on its consolidated financial statements and related disclosures. The Company does not anticipate a material impact and intends to adopt this standard on January 1, 2017.

Reclassification

Certain amounts in the 2014 and 2015 financial statements have been reclassified to conform with the 2016 presentation.

3. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2016 and 2015 consists of the following:

	December 31, 2016	December 31, 2015
Land	\$727,176	\$731,796
Buildings and improvements	3,531,280	3,613,724
Furniture, fixtures and equipment	769,671	701,742
Investment in hotel properties, gross	5,028,127	5,047,262
Accumulated depreciation	(1,355,918)	(1,229,586)
Investment in hotel properties, net	\$3,672,209	\$3,817,676

The above table excludes Hotel Deca as the property qualified as held for sale as of December 31, 2016 and its net cost basis has been reclassified from investment in hotel properties, net to assets held for sale in the accompanying consolidated balance sheets. On January 19, 2017, the Company sold Hotel Deca for \$55,000 (see Note 13).

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As of December 31, 2016 and 2015, buildings and improvements included capital lease assets of \$183,503 and accumulated depreciation included amounts related to capital lease assets of \$26,230 and \$20,915, respectively. Depreciation of the capital lease

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assets is included in depreciation and amortization expense in the accompanying consolidated statements of operations and comprehensive income for all periods presented.

Depreciation expense was \$191,791, \$180,346 and \$154,585 for the years ended December 31, 2016, 2015 and 2014, respectively.

The December 31, 2016 balance of investment in hotel properties excludes \$21,078 classified as property under development primarily at Chamberlain West Hollywood, Embassy Suites Philadelphia - Center City, Harbor Court Hotel, Hilton San Diego Gaslamp Quarter, Hotel Chicago, San Diego Paradise Point Resort and Spa and Southernmost Beach Resort Key West. The December 31, 2015 balance of investment in hotel properties excludes \$54,066 classified as property under development primarily at Chaminade Resort and Conference Center, Hotel Palomar, Washington, DC, Lansdowne Resort, Mason & Rook Hotel, The Liberty Hotel and Westin Michigan Avenue. Property under development consists of costs associated with rooms, lobby or outlets that are currently under renovation.

Interest, real estate taxes and insurance costs incurred during the renovation or development period are capitalized and depreciated over the lives of the renovated or developed assets. Capitalized interest for the years ended December 31, 2016, 2015 and 2014 was \$398, \$902 and \$400, respectively.

The hotels owned as of December 31, 2016 are located in California (19), the District of Columbia (nine), Florida (two), Illinois (two), Massachusetts (four), New York (four), Oregon (one), Pennsylvania (two), Virginia (one) and Washington state (two).

Investment in Joint Venture

The Company holds a 99.99% controlling interest in The Liberty Hotel. Since the Company holds a controlling interest, the accounts of the joint venture have been included in the accompanying consolidated financial statements.

The 0.01% interest of the outside partner is included in noncontrolling interests in consolidated entities in the accompanying consolidated balance sheets.

Acquisitions

During 2014, the Company acquired 100% interests in two full-service hotels, each of which is leased to LHL. The Company recorded the acquisitions at fair value using model-derived valuations, with the estimated fair value recorded to investment in hotel properties and hotel working capital assets and liabilities. In connection with the acquisitions, the Company incurred acquisition transaction costs that were expensed as incurred. The following is a summary of the acquisitions:

Hotel Name	Acquisition Date	Number of Rooms	Location	Purchase Price	Manager	Acquisition Transaction Costs For the year ended December 31, 2014
Hotel Vitale	April 2, 2014	200	San Francisco, CA	\$130,000	Two Roads Hospitality	\$ 1,864
The Heathman Hotel	December 18, 2014	150	Portland, OR	64,325	Provenance Hotels	328
Total for 2014 Acquisitions				\$194,325		\$ 2,192
Land purchase (adjacent to Onyx Hotel)						64
Park Central San Francisco ⁽¹⁾						123
Total						\$ 2,379

⁽¹⁾ On January 23, 2015, the Company acquired Park Central San Francisco.

The source of the funding for the April 2, 2014 acquisition was borrowings under the Company's senior unsecured credit facility. The source of funding for the December 18, 2014 acquisition was cash on hand. Total revenues and net income from the hotels acquired during 2014 of \$27,988 and \$2,018, respectively, are included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014.

On April 30, 2014, the Company acquired a parcel of land located adjacent to the Company's Onyx Hotel in Boston, MA for \$2,500. The land is available for future use.

During 2015, the Company acquired 100% interests in two full-service hotels, each of which is leased to LHL. The Company recorded the acquisitions at fair value using model-derived valuations, with the estimated fair value recorded to investment in hotel properties and hotel working capital assets and liabilities. In connection with the acquisitions, the Company incurred acquisition transaction costs that were expensed as incurred. The following is a summary of the acquisitions:

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Hotel Name	Acquisition Date	Number of Rooms	Location	Purchase Price	Manager	Acquisition Transaction Costs For the year ended December 31, 2015
Park Central San Francisco	January 23, 2015	681	San Francisco, CA	\$350,000	Highgate Hotels	\$ 230
The Marker Waterfront Resort	March 16, 2015	96	Key West, FL	96,250	Highgate Hotels	214
Total for 2015 Acquisitions				\$446,250		444
Mezzanine Loan ⁽¹⁾						55
Total						\$ 499

⁽¹⁾ See “Note Receivable” below.

The sources of the funding for the January 23, 2015 acquisition were cash on hand and borrowings under the Company’s senior unsecured credit facility. The source of funding for the March 16, 2015 acquisition was borrowings under the Company’s senior unsecured credit facility. Total revenues and net income from the hotels acquired during 2015 of \$82,884 and \$11,705, respectively, are included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2015.

Dispositions

On June 17, 2014, the Company sold Hilton Alexandria Old Town for \$93,380. This sale does not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of \$43,548 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014. The sale of the property was recorded on the full accrual method.

On September 10, 2014, the Company sold Hotel Viking for \$77,000. This sale does not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of \$49,657 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014. The sale of the property was recorded on the full accrual method. In conjunction with the sale of Hotel Viking, the Company executed a reverse 1031 exchange with Hotel Vitale, which was purchased on April 2, 2014. The reverse 1031 exchange has no effect on the Company’s GAAP financial reporting and does not have a material impact on the Company’s tax positions and expected tax expense.

On July 14, 2016, the Company sold Indianapolis Marriott Downtown for \$165,000. This sale does not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations. The Company recognized a gain of \$104,766 related to the sale of this property, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2016. The sale of the property was recorded on the full accrual method. The proceeds were used to pay down amounts outstanding under the Company’s senior unsecured credit facility and to fund the July 2016 common and preferred dividends.

On January 19, 2017, the Company sold Hotel Deca for \$55,000. Substantially all of the assets held for sale consist of investment in hotel properties, net and immaterial prepaid expenses and other assets and the liabilities of assets held for sale consist of accounts payable and accrued expenses. The Company will recognize a gain in the first quarter of 2017 of approximately \$30,500 related to the sale of this property (see Note 13). This sale does not represent a strategic shift in the Company’s business plan or primary markets, and therefore, does not qualify as discontinued operations.

Note Receivable

On July 20, 2015, the Company provided a junior mezzanine loan (the “Mezzanine Loan”) secured by pledges of equity interests in the entities that own the hotel properties, Shutters on the Beach and Casa Del Mar, in Santa Monica, CA. The Company entered into the Mezzanine Loan for a total purchase price of \$80,000 before closing costs. The Mezzanine Loan bears interest at a variable interest rate equal to LIBOR plus 7.75%. The Mezzanine Loan matures on August 9, 2017 and has five one-year extension options, subject to conditions. The Mezzanine Loan is subordinate to a \$235,000 first mortgage loan and a \$90,000 senior mezzanine loan secured by the properties that also mature on August 9, 2017. On July 8, 2016, the Company sold the Mezzanine Loan at face value for \$80,000 less costs associated with the sale of \$288, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2016. The proceeds were used to pay down amounts outstanding under the Company’s senior unsecured credit facility.

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4. Long-Term Debt

Debt Summary

Debt as of December 31, 2016 and December 31, 2015 consisted of the following:

Debt	Interest Rate	Maturity Date	Balance Outstanding as of December 31, 2016	December 31, 2015
Credit facilities				
Senior unsecured credit facility	Floating ^(a)	January 2018 ^(a)	\$0	\$ 21,000
LHL unsecured credit facility	Floating ^(b)	January 2018 ^(b)	0	0
Total borrowings under credit facilities			0	21,000
Term loans				
First Term Loan	Floating/Fixed ^(c)	January 2019 ^(c)	300,000	300,000
Second Term Loan	Floating/Fixed ^(c)	January 2021 ^(c)	555,000	555,000
Debt issuance costs, net			(2,242)	(2,797)
Total term loans, net of unamortized debt issuance costs			852,758	852,203
Massport Bonds				
Hyatt Regency Boston Harbor (taxable)	Floating ^(d)	March 2018	5,400	5,400
Hyatt Regency Boston Harbor (tax exempt)	Floating ^(d)	March 2018	37,100	37,100
Debt issuance costs, net			(45)	(184)
Total bonds payable, net of unamortized debt issuance costs			42,455	42,316
Mortgage loans				
Westin Michigan Avenue	5.75%	- ^(e)	0	131,262
Indianapolis Marriott Downtown	5.99%	- ^(e)	0	96,097
The Roger	6.31%	- ^(f)	0	58,935
Westin Copley Place	Floating ^(g)	August 2018 ^(g)	225,000	225,000
Debt issuance costs, net			(1,506)	(2,490)
Total mortgage loans, net of unamortized debt issuance costs			223,494	508,804
Total debt			\$ 1,118,707	\$ 1,424,323

Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. There were no borrowings outstanding at December 31, 2016. As of December 31, 2015, the rate, including the applicable margin,

^(a) for the Company's outstanding LIBOR borrowing of \$21,000 was 2.13%. The Company has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions. On January 10, 2017, the Company refinanced its senior unsecured credit facility resulting in a new maturity date of January 8, 2021, subject to two six-month extension options, pursuant to certain terms and conditions.

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

^(b) borrowings outstanding at December 31, 2016 and December 31, 2015. LHL has the option, pursuant to certain terms and conditions, to extend the maturity date for two six-month extensions. On January 10, 2017, LHL refinanced its unsecured credit facility resulting in a new maturity date of January 10, 2021, subject to two six-month extension options, pursuant to certain terms and conditions.

^(c) Term loans bear interest at floating rates equal to LIBOR plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the First Term Loan (as defined below) and the Second Term Loan (as defined below). At December 31, 2016 and 2015, the Company had interest rate swaps on the full amounts outstanding. See "Derivative and Hedging Activities" below. At December 31, 2016 and 2015, the fixed all-in interest rates for the First Term Loan and Second Term Loan were 2.38% and 2.95%, respectively, at the Company's current leverage ratio (as defined in the swap agreements). On January 10, 2017, the Company refinanced its First Term Loan resulting in a new maturity date of January 10, 2022. On January 10, 2017, the

Company amended and restated its Second Term Loan to match the financial and other covenants in its refinanced First Term Loan and senior unsecured credit facility. There were no changes to the maturity date.

The Massport Bonds are secured by letters of credit issued by U.S. Bank National Association (“U.S. Bank”) that were extended to September 2017. The letters of credit have two one-year extension options, one of which was^(d) exercised in July 2016, and are secured by the Hyatt Regency Boston Harbor. The letters of credit cannot be extended beyond the Massport Bonds’ maturity date. The bonds bear interest based on weekly floating rates. The interest rates as of December 31, 2016 were

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0.75% and 0.76% for the \$5,400 and \$37,100 bonds, respectively. The interest rates as of December 31, 2015 were 0.39% and 0.02% for the \$5,400 and \$37,100 bonds, respectively. The Company incurs an annual letter of credit fee of 1.35%.

(e) The Company repaid the mortgage loans on January 4, 2016 through borrowings on its senior unsecured credit facility.

(f) The Company repaid the mortgage loan on February 11, 2016 through borrowings on its senior unsecured credit facility.

The mortgage loan matures on August 14, 2018 with three options to extend the maturity date to January 5, 2021, pursuant to certain terms and conditions. The interest-only mortgage loan bears interest at a variable rate ranging from LIBOR plus 1.75% to LIBOR plus 2.00%, depending on Westin Copley Place's net cash flow (as defined in the loan agreement). The interest rate as of December 31, 2016 was LIBOR plus 1.75%, which equaled 2.46%. The interest rate as of December 31, 2015 was LIBOR plus 1.75%, which equaled 2.09%. The mortgage loan allows for prepayments without penalty, subject to certain terms and conditions.

Future scheduled debt principal payments as of December 31, 2016 are as follows:

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

A summary of the Company's interest expense and weighted average interest rates for unswapped variable rate debt for the years ended December 31, 2016, 2015 and 2014 is as follows:

	For the year ended December 31,		
	2016	2015	2014
Interest Expense:			
Interest incurred	\$40,814	\$52,604	\$54,859
Amortization of debt issuance costs	3,359	2,631	2,169
Capitalized interest	(398)	(902)	(400)
Interest expense	\$43,775	\$54,333	\$56,628

Weighted Average Interest Rates for Unswapped Variable Rate Debt:

Senior unsecured credit facility	2.14	% 1.89	% 1.86	%
LHL unsecured credit facility	2.13	% 1.89	% 1.86	%
Massport Bonds	0.44	% 0.06	% 0.35	%
Mortgage loan (Westin Copley Place)	2.23	% 2.19	% N/A	

Credit Facilities

On January 8, 2014, the Company refinanced its \$750,000 senior unsecured credit facility with a syndicate of banks. The credit facility matures on January 8, 2018, subject to two six-month extensions that the Company may exercise at its option, pursuant to certain terms and conditions, including payment of an extension fee. The credit facility, with a current commitment of \$750,000, includes an accordion feature which, subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$1,050,000. Borrowings under the credit facility bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, the Company is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily unused portion of the credit facility. On January 10, 2017, the Company refinanced its senior unsecured credit facility (see Note 13).

On January 8, 2014, LHL also refinanced its \$25,000 unsecured revolving credit facility to be used for working capital and general lessee corporate purposes. The LHL credit facility matures on January 8, 2018, subject to two six-month extensions that LHL may exercise at its option, pursuant to certain terms and conditions, including payment of an

extension fee. Borrowings under the LHL credit facility bear interest at floating rates equal to, at LHL's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. Additionally, LHL is required to pay a variable unused commitment fee of 0.25% or 0.30% of the unused portion of the credit facility, depending on the average daily

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unused portion of the LHL credit facility. On January 10, 2017, LHL refinanced its unsecured revolving credit facility (see Note 13).

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

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

Term Loans

On May 16, 2012, the Company entered into a \$177,500 unsecured term loan (the "Repaid Term Loan") with a seven-year term maturing on May 16, 2019. The Repaid Term Loan bore interest at variable rates. On November 5, 2015, the Company repaid the Repaid Term Loan.

On January 8, 2014, the Company refinanced its \$300,000 unsecured term loan (the "First Term Loan"). The First Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$500,000. The First Term Loan has a five-year term maturing on January 8, 2019 and bears interest at variable rates. On January 10, 2017, the Company refinanced its First Term Loan (see Note 13).

On November 5, 2015, the Company entered into a \$555,000 unsecured term loan (the "Second Term Loan") with a five-year term maturing on January 29, 2021. The Second Term Loan includes an accordion feature, which subject to certain conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$700,000. The Second Term Loan bears interest at variable rates. On January 10, 2017, the Company amended its Second Term Loan (see Note 13).

The Company's term loans contain certain financial and other covenants, including covenants relating to net worth requirements, debt ratios and fixed charge coverage ratios. In addition, pursuant to the terms of the agreements, if a default or event of default occurs or is continuing, the Company may be precluded from paying certain distributions or other payments to its shareholders. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for all of its term loans (see "Derivative and Hedging Activities" below).

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

Derivative and Hedging Activities

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

the Company's variable rate debt. Effective August 2, 2012, the Company entered into five interest rate swap agreements with an aggregate notional amount of \$300,000 to hedge the variable interest rate on the First Term Loan through August 2, 2017, resulting in a fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements), which interest rate was 2.38% at December 31, 2016. As of December 31, 2016, the Company has interest rate swaps with an aggregate notional amount of \$555,000 to hedge the variable interest rate on the Second Term Loan and, as a result, the fixed all-in interest rate based on the Company's current leverage ratio (as defined in the swap agreements) is 2.95% through May 16, 2019. From May 16, 2019 through the term of the Second Term Loan, the Company has interest rate

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swaps with an aggregate notional amount of \$377,500 to hedge a portion of the variable interest rate debt on the Second Term Loan. The Company has designated its pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. The interest rate swaps were entered into with the intention of eliminating the variability of the terms loans, but can also limit the exposure to any amendments, supplements, replacements or refinancings of the Company's debt.

The following table presents the effect of derivative instruments on the Company's accompanying consolidated statements of operations and comprehensive income, including the location and amount of unrealized loss on outstanding derivative instruments in cash flow hedging relationships, for the years ended December 31, 2016, 2015 and 2014:

Amount of Loss Recognized in OCI on Derivative Instruments			Location of Loss Reclassified from AOCI into Net Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Net Income (Effective Portion)		
(Effective Portion)				(Effective Portion)		
For the year ended December 31,				For the year ended December 31,		
2016	2015	2014		2016	2015	2014

Derivatives in cash
flow hedging
relationships:

Interest rate swaps	\$ (4,160)	\$ (5,682)	\$ (8,276)	Interest expense	\$ 6,625	\$ 4,835	\$ 4,410
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During the years ended December 31, 2016, 2015 and 2014, the Company did not have any hedge ineffectiveness or amounts that were excluded from the assessment of hedge effectiveness recorded in earnings.

As of December 31, 2016, there was \$2,368 in cumulative unrealized gain of which \$2,365 was included in AOCI and \$3 was attributable to noncontrolling interests. As of December 31, 2015, there was \$97 in cumulative unrealized loss of which \$97 was included in AOCI and zero was attributable to noncontrolling interests. The Company expects that approximately \$4,890 will be reclassified from AOCI and noncontrolling interests and recognized as a reduction to income in the next 12 months, calculated as estimated interest expense using the interest rates on the derivative instruments as of December 31, 2016.

Bonds Payable

The Company is the obligor with respect to a \$37,100 tax-exempt special project revenue bond and a \$5,400 taxable special project revenue bond, both issued by the Massachusetts Port Authority (collectively, the "Massport Bonds"). The Massport Bonds, which mature on March 1, 2018, bear interest based on weekly floating rates and have no principal reductions prior to their scheduled maturities. The Massport Bonds may be redeemed at any time, at the Company's option, without penalty. The Massport Bonds are secured by letters of credit issued by U.S. Bank that were extended to September 30, 2017. The letters of credit have two one-year extension options, one of which was exercised in July 2016, that the Company may exercise at its option, subject to certain terms and conditions. The letters of credit cannot be extended beyond the Massport Bonds' maturity date. The Company incurs an annual letter of credit fee of 1.35%. The letters of credit are secured by the Hyatt Regency Boston Harbor. If U.S. Bank fails to renew its letters of credit at expiration and an acceptable replacement provider cannot be found, the Company may be required to pay off the bonds.

Extinguishment of Debt

As discussed above, on January 8, 2014, the Company refinanced its senior unsecured credit facility and First Term Loan and LHL refinanced its unsecured revolving credit facility. The refinancing arrangements for the senior unsecured credit facility and First Term Loan were considered substantial modifications. The Company recognized a

loss from extinguishment of debt of \$2,487, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2014. As discussed above, on November 5, 2015, the Company repaid the Repaid Term Loan prior to maturity and recognized a loss from extinguishment of debt of \$831, which is included in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2015. The loss from extinguishment of debt represents the unamortized deferred financing costs incurred when the original agreements were executed.

Mortgage Loans

The Company's mortgage loans are secured by the respective properties. The mortgages are non-recourse to the Company except for fraud or misapplication of funds.

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On January 4, 2016, the Company repaid without fee or penalty the Westin Michigan Avenue mortgage loan in the amount of \$131,262 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in April 2016.

On January 4, 2016, the Company repaid without fee or penalty the Indianapolis Marriott Downtown mortgage loan in the amount of \$96,097 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in July 2016.

On February 11, 2016, the Company repaid without fee or penalty The Roger mortgage loan in the amount of \$58,831 plus accrued interest through borrowings under its senior unsecured credit facility. The loan was due to mature in August 2016.

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

Financial Covenants

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

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

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

As of December 31, 2016, the Company is in compliance with all debt covenants, current on all loan payments and not otherwise in default under the credit facilities, term loans, bonds payable or mortgage loan.

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5. Commitments and Contingencies

Ground, Land and Building, and Air Rights Leases

A summary of the Company's hotels subject to non-cancelable operating leases as of December 31, 2016 is as follows:

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

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

⁽²⁾ The Company has options, subject to certain terms and conditions, to extend the ground lease for 51 years to 2077.

⁽³⁾ The Company has the option, subject to certain terms and conditions, to extend the ground lease for 14 years to 2070.

⁽⁴⁾ No payments are required through maturity.

The ground leases at Viceroy Santa Monica, The Liberty Hotel and Hotel Vitale are subject to minimum annual rent increases, resulting in noncash straight-line rent expense of \$1,890, \$1,943 and \$1,820 for the years ended December 31, 2016, 2015 and 2014, respectively, which is included in total ground rent expense. Total ground rent expense for the years ended December 31, 2016, 2015 and 2014 was \$16,187, \$16,076 and \$14,667, respectively. Certain rent payments are based on the hotel's performance. Actual payments of rent may exceed the minimum required rent due to meeting specified thresholds.

A summary of the Company's hotels subject to capital leases of land and building as of December 31, 2016 is as follows:

Lease Properties	Estimated Present Value of Remaining Rent Payments ⁽¹⁾	Lease Expiration Date
The Roger	\$4,892	December 2044
Harbor Court Hotel	\$18,424	April 2048
Hotel Triton ⁽²⁾	\$25,625	December 2049

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

⁽²⁾ In 2015, the hotel lease was amended, extending the lease expiration date from January 2048 to December 2049. At acquisition, the estimated present value of the remaining payments recorded as a capital lease obligation was \$27,752. Due to the lease amendment, the recalculated estimated present value of the remaining rent payments is \$25,625, which net of amortization, is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Future minimum rent payments, including capital lease payments, (without reflecting future applicable Consumer Price Index increases) are as follows:

2017	\$13,052
2018	13,195
2019	13,172
2020	13,559
2021	13,713
Thereafter	587,067
	\$653,758

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Reserve Funds for Future Capital Expenditures

Certain of the Company's agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, generally 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' capital assets. Certain of the agreements require that the Company reserve this cash in separate accounts. As of December 31, 2016, \$13,073 was available in restricted cash reserves for future capital expenditures. The Company has sufficient cash on hand and availability on its credit facilities to cover capital expenditures under agreements that do not require that the Company separately reserve cash.

Restricted Cash Reserves

At December 31, 2016, the Company held \$15,035 in restricted cash reserves. Included in such amounts are \$13,073 of reserve funds for future capital expenditures and \$1,962 held by insurance and management companies on the Company's behalf to be refunded or applied to future liabilities.

Litigation

The nature of hotel operations exposes the Company and its hotels to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company's knowledge, is any litigation threatened against the Company, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

6. Equity

Common Shares of Beneficial Interest

At December 31, 2016 and 2015, there were 200,000,000 authorized common shares under the Company's declaration of trust, as amended.

On January 1, 2015, the Company issued 11,682 common shares of beneficial interest and authorized an additional 4,183 deferred shares to the independent members of its Board of Trustees for their 2014 compensation. These common shares of beneficial interest were issued under the 2014 Plan. Additionally, the Company issued 9,757 common shares of beneficial interest under the 2009 Plan, related to the resignation of a former trustee, for the second of five payouts of his accumulated deferred shares granted as compensation for years 1999 through 2013. On November 9, 2015, the Company issued 30,388 common shares of beneficial interest for the trustee's remaining deferred share balance. These common shares of beneficial interest were issued under the 2009 Plan and 2014 Plan.

On January 1, 2015, the Company issued 108,779 nonvested shares with service conditions to executives related to the nonvested share awards with market conditions granted on January 26, 2012 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

On March 19, 2015, the Company issued 62,742 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2016, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On January 1, 2016, the Company issued 13,864 common shares of beneficial interest and authorized an additional 4,910 deferred shares to the independent members of its Board of Trustees for their 2015 compensation. These common shares of beneficial interest were issued under the 2014 Plan.

On March 1, 2016, the Company issued 36,926 common shares of beneficial interest to executives related to the nonvested share awards with market conditions granted on January 30, 2013 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

On March 18, 2016, the Company issued 98,787 nonvested shares with service conditions to the Company's executives and employees. The nonvested shares will vest in three annual installments starting January 1, 2017, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

On April 25, 2016, the Company issued 10,526 nonvested shares with service conditions to one of the Company's executives. The nonvested shares will vest in three annual installments starting January 1, 2017, subject to continued employment. These common shares of beneficial interest were issued under the 2014 Plan.

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On May 9, 2016, the Company issued 20,688 common shares of beneficial interest to its former Chief Financial Officer related to the nonvested share awards with market conditions, as a result of the previously announced termination of employment. Pursuant to the terms of the award agreements, a portion of his nonvested share awards with market conditions vested upon termination (see Note 7). Of the common shares of beneficial interest issued, 15,320 shares were issued under the 2009 Plan and 5,368 shares were issued under the 2014 Plan.

On August 11, 2016, the Company issued 42,824 common shares of beneficial interest to executives related to the nonvested share awards with market conditions granted on January 30, 2013 (see Note 7 for additional details including vesting information). These common shares of beneficial interest were issued under the 2009 Plan.

Common Dividends

The Company paid the following dividends on common shares/units during the year ended December 31, 2016:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Date Paid
\$0.45	December 31, 2015	December 31, 2015	January 15, 2016
\$0.45	March 31, 2016	March 31, 2016	April 15, 2016
\$0.45	June 30, 2016	June 30, 2016	July 15, 2016
\$0.45	September 30, 2016	September 30, 2016	October 17, 2016

Treasury Shares

Treasury shares are accounted for under the cost method. During the year ended December 31, 2016, the Company received 96,601 common shares of beneficial interest related to employees surrendering shares to pay minimum withholding taxes at the time nonvested shares vested and forfeiting nonvested shares upon resignation.

The Company's Board of Trustees previously authorized a share repurchase program (the "Repurchase Program") to acquire up to \$100,000 of the Company's common shares of beneficial interest, with repurchased shares recorded at cost in treasury. As of December 31, 2016, the Company had availability under the Repurchase Program to acquire up to \$69,807 of common shares of beneficial interest. In February 2017, the Company's Board of Trustees authorized an expansion of the Repurchase Program to acquire up to an additional \$500,000 of the Company's common shares of beneficial interest (see Note 13). The timing, manner, price and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The Repurchase Program may be suspended, modified or terminated at any time for any reason without prior notice. The Repurchase Program does not obligate the Company to acquire any specific number of shares, and all open market repurchases will be made in accordance with applicable rules and regulations setting forth certain restrictions on the method, timing, price and volume of open market share repurchases.

During the year ended December 31, 2016, the Company re-issued 13,864 treasury shares related to earned 2015 compensation for the Board of Trustees, 100,438 treasury shares related to the earned share awards with market conditions and 110,826 treasury shares related to the grants of nonvested shares with service conditions.

At December 31, 2016, there were 27,368 common shares of beneficial interest in treasury.

Preferred Shares

At December 31, 2016 and 2015, there were 40,000,000 authorized preferred shares under the Company's declaration of trust, as amended.

On July 3, 2014, the Company redeemed the remaining 2,348,888 7.25% Series G Cumulative Redeemable Preferred Shares (the "Series G Preferred Shares") for \$58,722 (\$25.00 per share) plus accrued and unpaid dividends through the redemption date, July 3, 2014, of \$1,100. The redemption value of the Series G Preferred Shares exceeded their carrying value by \$951, which is included in the determination of net income attributable to common shareholders for the year ended December 31, 2014. The \$951 represents the offering costs related to the redeemed Series G Preferred Shares.

On May 25, 2016, the Company issued 6,000,000 6.3% Series J Cumulative Redeemable Preferred Shares (\$0.01 par value) (the "Series J Preferred Shares") at a price of \$25.00 per share and received net proceeds, after deducting underwriting discounts and other offering costs, of \$145,078. The net proceeds were used to pay down amounts outstanding under the Company's senior unsecured credit facility, and for general corporate purposes.

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The following Preferred Shares were outstanding as of December 31, 2016:

Security Type	Number of Shares
7.5% Series H Preferred Shares	2,750,000
6.375% Series I Preferred Shares	4,400,000
6.3% Series J Preferred Shares	6,000,000

The 7.5% Series H Cumulative Redeemable Preferred Shares (the “Series H Preferred Shares”), the 6.375% Series I Cumulative Redeemable Preferred Shares (the “Series I Preferred Shares”) and the Series J Preferred Shares (collectively, the “Preferred Shares”) rank senior to the common shares of beneficial interest and on parity with each other with respect to payment of distributions. The Company will not pay any distributions, or set aside any funds for the payment of distributions, on its common shares of beneficial interest unless it has also paid (or set aside for payment) (i) the full cumulative distributions on the Series H Preferred Shares for the current and all past dividend periods and (ii) the full cumulative distributions on the Series I Preferred Shares and the Series J Preferred Shares for all past dividend periods. The outstanding Preferred Shares do not have any maturity date, and are not subject to mandatory redemption. The difference between the carrying value and the redemption amount of the Preferred Shares are the offering costs. In addition, the Company is not required to set aside funds to redeem the Preferred Shares.

As of January 24, 2016, the Company may optionally redeem the Series H Preferred Shares. The Company may not optionally redeem the Series I Preferred Shares and the Series J Preferred Shares prior to March 4, 2018 and May 25, 2021, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. After those dates, the Company may, at its option, redeem the Preferred Shares, in whole or from time to time in part, by payment of \$25.00 per share, plus any accumulated, accrued and unpaid distributions. In addition, upon the occurrence of a change of control (as defined in the Company’s charter), the result of which the Company’s common shares of beneficial interest and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT LLC or the NASDAQ Stock Market, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days after the change of control occurred, by paying \$25.00 per share, plus any accrued and unpaid distributions. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of Series H Preferred Shares, Series I Preferred Shares and Series J Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares of beneficial interest based on a defined formula subject to a cap of 4,680,500 common shares, 8,835,200 common shares and 12,842,400 common shares, respectively.

Preferred Dividends

The Company paid the following dividends on preferred shares during the year ended December 31, 2016:

Security Type	Dividend per Share ⁽¹⁾	For the Quarter Ended	Record Date	Date Paid
7.5% Series H	\$ 0.47	December 31, 2015	January 1, 2016	January 15, 2016
6.375% Series I	\$ 0.40	December 31, 2015	January 1, 2016	January 15, 2016
7.5% Series H	\$ 0.47	March 31, 2016	April 1, 2016	April 15, 2016
6.375% Series I	\$ 0.40	March 31, 2016	April 1, 2016	April 15, 2016
7.5% Series H	\$ 0.47	June 30, 2016	July 1, 2016	July 15, 2016
6.375% Series I	\$ 0.40	June 30, 2016	July 1, 2016	July 15, 2016
6.3% Series J ⁽²⁾	\$ 0.22	June 30, 2016	July 1, 2016	July 15, 2016
7.5% Series H	\$ 0.47	September 30, 2016	September 30, 2016	October 17, 2016
6.375% Series I	\$ 0.40	September 30, 2016	September 30, 2016	October 17, 2016
6.3% Series J	\$ 0.39	September 30, 2016	September 30, 2016	October 17, 2016

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

⁽²⁾ Partial dividend for newly issued preferred shares.

Noncontrolling Interests of Common Units in Operating Partnership

On May 13, 2015, the Company issued an aggregate of 151,077 common shares of beneficial interest in connection with the redemption of 151,077 common units of limited partnership interest held by certain limited partners of the

Operating Partnership. These common shares of beneficial interest were issued in reliance on an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Company relied on the exemption under Section 4(a)(2) based upon factual representations given by the limited partners who received the common shares of beneficial interest.

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The following schedule presents the effects of changes in the Company's ownership interest in the Operating Partnership on the Company's equity:

	For the year ended December 31,		
	2016	2015	2014
Net income attributable to common shareholders	\$234,575	\$123,383	\$197,561
Increase (decrease) in additional paid-in capital from adjustments to noncontrolling interests of common units in Operating Partnership	0	14	(397)
Change from net income attributable to common shareholders and adjustments to noncontrolling interests	\$234,575	\$123,397	\$197,164

There were no redemptions of common units of limited partnership interest held by limited partners of the Operating Partnership in 2016.

As of December 31, 2016, the Operating Partnership had 145,223 common units of limited partnership interest outstanding, representing a 0.1% partnership interest held by the limited partners. As of December 31, 2016, approximately \$4,425 of cash or the equivalent value in common shares, at the Company's option, would be paid to the limited partners of the Operating Partnership if the partnership were terminated. The approximate value of \$4,425 is based on the Company's closing common share price of \$30.47 on December 31, 2016, which is assumed to be equal to the value provided to the limited partners upon liquidation of the Operating Partnership. Subject to certain limitations, the outstanding common units of limited partnership are redeemable for cash, or at the Company's option, for a like number of common shares of beneficial interest of the Company.

7. Equity Incentive Plan

The 2014 Plan permits the Company to issue equity-based awards to executives, employees, non-employee members of the Board of Trustees and any other persons providing services to or for the Company and its subsidiaries. The 2014 Plan provides for a maximum of 2,900,000 common shares of beneficial interest to be issued in the form of share options, share appreciation rights, restricted or unrestricted share awards, phantom shares, performance awards, incentive awards, other share-based awards, or any combination of the foregoing. In addition, the maximum number of common shares subject to awards of any combination that may be granted under the 2014 Plan during any fiscal year to any one individual is limited to 500,000 shares. The 2014 Plan terminates on February 17, 2024. The 2014 Plan authorized, among other things: (i) the grant of share options that qualify as incentive options under the Code, (ii) the grant of share options that do not so qualify, (iii) the grant of common shares in lieu of cash for trustees' fees, (iv) grants of common shares in lieu of cash compensation and (v) the making of loans to acquire common shares in lieu of compensation (to the extent permitted by law and applicable provisions of the Sarbanes Oxley Act of 2002). The exercise price of share options is determined by the Compensation Committee of the Board of Trustees, but may not be less than 100% of the fair value of the common shares on the date of grant. Restricted share awards and options under the 2014 Plan vest over a period determined by the Compensation Committee of the Board of Trustees, generally a three year period. The duration of each option is also determined by the Compensation Committee, subject to applicable laws and regulations. At December 31, 2016, there were 2,663,994 common shares available for future grant under the 2014 Plan. Upon the approval of the 2014 Plan by the common shareholders on May 7, 2014, the 2014 Plan replaced the 2009 Plan. The Company will no longer make any grants under the 2009 Plan (although awards previously made under the 2009 Plan that are outstanding will remain in effect in accordance with the terms of that plan and the applicable award agreements).

Nonvested Share Awards with Service Conditions

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

comprehensive income.

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A summary of the Company's nonvested shares with service conditions as of December 31, 2016 is as follows:

	Number of Shares	Weighted - Average Grant Date Fair Value
Nonvested at January 1, 2016	228,835	\$ 33.29
Granted	110,826	25.01
Vested ⁽¹⁾	(90,191)	31.70
Forfeited	(12,711)	27.41
Nonvested at December 31, 2016 ⁽²⁾	236,759	\$ 30.78

⁽¹⁾ Amount includes accelerated vesting of the former Chief Financial Officer's shares.

⁽²⁾ Amount excludes 29,376 share awards with market conditions which were earned but nonvested due to a service condition as of December 31, 2016.

As of December 31, 2016 and 2015, there were \$2,798 and \$3,914, respectively, of total unrecognized compensation costs related to nonvested share awards with service conditions. As of December 31, 2016 and 2015, these costs were expected to be recognized over a weighted-average period of 1.2 and 1.4 years, respectively. The total intrinsic value of shares vested (calculated as number of shares multiplied by vesting date share price) during the years ended December 31, 2016, 2015 and 2014 was \$2,256, \$3,152 and \$5,602, respectively. Compensation costs (net of forfeitures) related to nonvested share awards with service conditions that have been included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income were \$3,002, \$3,323 and \$3,055 for the years ended December 31, 2016, 2015 and 2014, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, all of his nonvested share awards with service conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized compensation costs related to his nonvested share awards with service conditions over the estimated remaining service period. On May 6, 2016, all of his nonvested share awards with service conditions vested with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was \$538 for the year ended December 31, 2016.

Nonvested Share Awards with Market or Performance Conditions

On May 31, 2008, the Company's Board of Trustees entered into three Performance-Based Share Agreements (the "Share Agreements"), awarding 125,000 nonvested share awards with market conditions, in 25,000, 50,000 and 50,000 increments, of nonvested shares to an executive. The actual amounts of the shares awarded earned for each of the Share Agreements is based on the specified three-year performance measurement periods ending on July 1, 2011, 2014 and 2017, respectively. The actual amounts of the shares awarded are to range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the Share Agreements, and none of the shares are outstanding until issued in accordance with the Share Agreements.

On July 1, 2014, the Company issued 59,778 shares to an executive who earned 119.6% of the 50,000 target number of shares from the nonvested share awards with market conditions granted on May 31, 2008. All of the shares earned, or 59,778 shares, vested immediately on July 1, 2014. The executive received a cash payment of \$239 on the earned shares equal to the value of all dividends paid on common shares from May 31, 2008 until the determination date, July 1, 2014. As of July 1, 2014, the executive is entitled to receive dividends as declared and paid on the earned shares and to vote the shares. These common shares of beneficial interest were issued under the 2009 Plan.

With respect to the remaining 50,000 shares with a performance measurement period ending on July 1, 2017, the fair value of these shares was estimated on July 1, 2014, the beginning of the performance measurement period.

On January 24 and January 26, 2011, the Company's Board of Trustees granted a target of 8,925 and 35,920 nonvested share awards with market conditions to executives, respectively. On January 1, 2014, the executives earned 79.5% of the target number of shares, or 35,652 shares. The shares representing the difference between 79.5% and 100% of the target, or 9,193 shares, were forfeited on January 1, 2014. Of the earned shares, 11,885 shares vested immediately on

January 1, 2014, 11,884 shares vested on January 1, 2015 and the remaining 11,883 shares vested on January 1, 2016. The executives received cash payments of \$75 on the earned shares equal to the value of all dividends paid on common shares from December 31, 2010 until the determination date, January 1, 2014. As of January 1, 2014, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares, including those shares subject to further vesting.

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

On January 30, 2013, the Company's Board of Trustees granted a target of 80,559 nonvested share awards with either market or performance conditions to executives (the "January 30, 2013 Awards"). On March 1, 2016, the executives earned 91.7% of their 40,280 target number of shares, or 36,926 shares, and all of the earned shares vested immediately. The shares representing the difference between 91.7% and 100% of the target, or 3,354 shares, were forfeited on March 1, 2016. The executives also received a cash payment of \$151 on the shares equal to the value of all dividends paid on common shares from January 1, 2013 until the determination date, February 29, 2016. As of March 1, 2016, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares. On August 11, 2016, the executives earned 133.2% of their 32,117 remaining target shares exclusive of the 8,162 shares granted to the former Chief Financial Officer, or 42,824 shares, and all of the earned shares vested immediately. The executives also received a cash payment of \$214 on the shares equal to the value of all dividends paid on common shares from January 1, 2013 until the determination date, August 11, 2016. As of August 11, 2016, the executives are entitled to receive dividends as declared and paid on the earned shares and to vote the shares.

On March 20, 2014, the Company's Board of Trustees granted a target of 57,385 nonvested share awards exclusive of the 14,582 shares granted to the former Chief Financial Officer, with either market or performance conditions to executives (the "March 20, 2014 Awards"). The actual amounts of the shares awarded with respect to 28,692 of the 57,385 shares will be determined on January 1, 2017, based on the performance measurement period of January 1, 2014 through December 31, 2016, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 28,693 of the 57,385 shares will be determined on July 1, 2017, based on the performance measurement period of July 1, 2014 through June 30, 2017, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardees on or about January 1, 2017 and July 1, 2017, respectively. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 28,692 shares, amortization commenced on March 20, 2014, the beginning of the requisite service period, and, with respect to 28,693 shares, amortization commenced on July 1, 2014, the beginning of the requisite service period.

On March 19, 2015, the Company's Board of Trustees granted a target of 49,225 nonvested share awards exclusive of the 12,435 shares granted to the former Chief Financial Officer, with either market or performance conditions to executives (the "March 19, 2015 Awards"). The actual amounts of the shares awarded with respect to 24,612 of the 49,225 shares will be determined on January 1, 2018, based on the performance measurement period of January 1, 2015 through December 31, 2017, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 24,613 of the 49,225 shares will be determined on July 1, 2018, based on the performance measurement period of July 1, 2015 through June 30, 2018, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and

outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardees on or about January 1, 2018 and July 1, 2018, respectively. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 24,612 shares, amortization commenced on March 19, 2015, the beginning of the requisite service period, and, with respect to 24,613 shares, amortization commenced on July 1, 2015, the beginning of the requisite service period.

On March 18, 2016, the Company's Board of Trustees granted a target of 77,565 nonvested share awards exclusive of the 19,610 shares granted to the former Chief Financial Officer, with either market or performance conditions to executives (the "March 18, 2016 Awards"). The actual amounts of the shares awarded with respect to 38,782 of the 77,565 shares will be determined on or about January 1, 2019, based on the performance measurement period of January 1, 2016 through December 31, 2018, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 38,783 of

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the 77,565 shares will be determined on or about July 1, 2019, based on the performance measurement period of July 1, 2016 through June 30, 2019, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executives will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardees on or about January 1, 2019 and July 1, 2019, respectively. Thereafter, the executives will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 38,782 shares, amortization commenced on March 18, 2016, the beginning of the requisite service period, and, with respect to 38,783 shares, amortization commenced on July 1, 2016, the beginning of the requisite service period.

On April 25, 2016, the Company's Board of Trustees granted a target of 12,632 nonvested share awards with either market or performance conditions to an executive (the "April 25, 2016 Awards"). The actual amounts of the shares awarded with respect to 6,316 of the 12,632 shares will be determined on or about January 1, 2019, based on the performance measurement period of January 1, 2016 through December 31, 2018, in accordance with the terms of the agreements. The actual amounts of the shares awarded with respect to the remaining 6,316 of the 12,632 shares will be determined on or about July 1, 2019, based on the performance measurement period of July 1, 2016 through June 30, 2019, in accordance with the terms of the agreements. The actual amounts of the shares awarded will range from 0% to 200% of the target amounts, depending on the performance analysis stipulated in the agreements, and none of the shares are outstanding until issued in accordance with award agreements based on performance. After the actual amounts of the awards are determined (or earned) at the end of the respective performance measurement period, all of the earned shares will be issued and outstanding on those dates. The executive will receive cash payments on the earned shares equal to the value of all dividends paid on common shares from the grant date through the respective determination date. Such amounts will be paid to the awardee on or about January 1, 2019 and July 1, 2019, respectively. Thereafter, the executive will be entitled to receive dividends as declared and paid on the earned shares and to vote the shares. With respect to 6,316 shares, amortization commenced on April 25, 2016, the beginning of the requisite service period, and with respect to 6,316 shares, amortization commenced on July 1, 2016, the beginning of the requisite service period.

The grant date fair values of the above described nonvested share awards with market conditions were determined by the Company using data under the Monte Carlo valuation method provided by a third-party consultant. The terms stipulated in the award agreements used to determine the total amount of the shares awarded for all awards granted prior to 2013 consist of the following three tranches: (1) a comparison of the Company's "total return" (the increase in the market price of a Company's common shares plus dividends declared thereon and assuming such dividends are reinvested as calculated by the FTSE NAREIT Equity Index) to the total return of the companies in the FTSE NAREIT Equity Index, (2) a comparison of the Company's total return to the total returns of six companies in a designated peer group of the Company and (3) the Company's actual performance as compared to a Board-established total return goal.

For the awards granted in 2013 and after, the nonvested awards consist of three tranches in each performance measurement period described above. Two of the tranches in the award agreements are nonvested share awards with market conditions, consistent with tranches described in (2) and (3) above, and were valued on the grant date via the methodology described above using a third-party consultant. The third tranche is based on "return on invested capital" discussed below, which is a performance condition. The grant date fair values of the tranches with performance conditions were calculated based on the targeted awards, and the valuation is adjusted on a periodic basis. As of December 31, 2016, a change in the Company's estimate of probable outcome occurred for all the award tranches with performance conditions as the return on invested capital measurement assumptions (see below) was revised from 100% to 200% resulting in a cumulative adjustment to compensation cost.

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

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

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

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

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

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The assumptions used were as follows for each performance measure:

	Volatility	Interest Rates	Dividend Yield	Stock Beta	Fair Value of Components of Award	Weighting of Total Awards
April 25, 2016 Awards (performance period starting January 1, 2016)						
Target amounts	26.40 %	1.01 %	N/A	N/A	\$ 18.61	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 23.75	33.30 %
Peer companies	26.40 %	1.01 %	N/A	1.024	\$ 23.63	33.30 %
April 25, 2016 Awards (performance period starting July 1, 2016)						
Target amounts	26.40 %	1.01 %	N/A	N/A	\$ 20.47	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 23.75	33.30 %
Peer companies	26.40 %	1.01 %	N/A	1.024	\$ 26.10	33.30 %
March 18, 2016 Awards (performance period starting January 1, 2016)						
Target amounts	26.40 %	1.00 %	N/A	N/A	\$ 22.23	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 25.14	33.30 %
Peer companies	26.40 %	1.00 %	N/A	1.023	\$ 25.18	33.30 %
March 18, 2016 Awards (performance period starting July 1, 2016)						
Target amounts	26.40 %	1.00 %	N/A	N/A	\$ 21.65	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 25.14	33.30 %
Peer companies	26.40 %	1.00 %	N/A	1.023	\$ 27.81	33.30 %
March 19, 2015 Awards (performance period starting January 1, 2015)						
Target amounts	24.40 %	0.99 %	N/A	N/A	\$ 29.25	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 38.84	33.30 %
Peer companies	24.40 %	0.99 %	N/A	1.011	\$ 40.69	33.30 %
March 19, 2015 Awards (performance period starting July 1, 2015)						
Target amounts	24.40 %	0.99 %	N/A	N/A	\$ 31.86	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 38.84	33.30 %
Peer companies	24.40 %	0.99 %	N/A	1.011	\$ 41.00	33.30 %
May 31, 2008 Awards (performance period starting July 1, 2014)						
Target amounts	33.30 %	0.90 %	N/A	N/A	\$ 32.57	20.00 %
NAREIT index	33.30 %	0.90 %	N/A	1.356	\$ 39.26	40.00 %
Peer companies	33.30 %	0.90 %	N/A	0.908	\$ 38.15	40.00 %
March 20, 2014 Awards (performance period starting January 1, 2014)						
Target amounts	33.70 %	0.90 %	N/A	N/A	\$ 31.94	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 31.82	33.30 %
Peer companies	33.70 %	0.90 %	N/A	0.938	\$ 31.02	33.30 %
March 20, 2014 Awards (performance period starting July 1, 2014)						
Target amounts	33.70 %	0.90 %	N/A	N/A	\$ 31.23	33.40 %
Return on invested capital	N/A	N/A	N/A	N/A	\$ 31.82	33.30 %
Peer companies	33.70 %	0.90 %	N/A	0.938	\$ 34.53	33.30 %

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January 30, 2013 Awards (performance period starting
January 1, 2013)

Target amounts	38.70	%	0.42	%	N/A	N/A	\$ 29.38	33.40	%
Return on invested capital	N/A		N/A		N/A	N/A	\$ 27.20	33.30	%
Peer companies	38.70	%	0.42	%	N/A	0.864	\$ 30.51	33.30	%

January 30, 2013 Awards (performance period starting
July 1, 2013)

Target amounts	38.70	%	0.42	%	N/A	N/A	\$ 27.70	33.40	%
Return on invested capital	N/A		N/A		N/A	N/A	\$ 27.20	33.30	%
Peer companies	38.70	%	0.42	%	N/A	0.864	\$ 31.34	33.30	%

January 26, 2012 Awards

Target amounts	65.30	%	0.31	%	N/A	N/A	\$ 36.22	33.40	%
NAREIT index	65.30	%	0.31	%	N/A	1.370	\$ 35.25	33.30	%
Peer companies	65.30	%	0.31	%	N/A	0.911	\$ 35.33	33.30	%

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A summary of the Company's restricted share awards with either market or performance conditions as of December 31, 2016 is as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2016	348,587	\$ 33.98
Granted ⁽¹⁾⁽²⁾	121,372	24.74
Vested ⁽²⁾	(155,463)	31.89
Forfeited ⁽²⁾	(38,313)	29.26
Nonvested at December 31, 2016	276,183	\$ 27.36

(1) Amount includes an additional 10,707 shares issued on August 11, 2016 from the January 30, 2013 grant, which were earned in excess of the target amount.

(2) Amounts include 27,570 shares vested, 858 shares earned in excess of target amount, and 34,959 shares forfeited, respectively, upon termination of the former Chief Financial Officer.

As of December 31, 2016 and 2015, there were \$3,757 and \$5,342, respectively, of total unrecognized compensation costs related to restricted share awards with market or performance conditions. As of December 31, 2016 and 2015, these costs were expected to be recognized over a weighted-average period of 1.8 and 1.7 years, respectively. As of December 31, 2016 and 2015, there were 463,532 and 308,069 share awards with market or performance conditions vested, respectively. Additionally, there were 29,376 and 84,401 nonvested share awards with market or performance conditions earned but nonvested due to a service condition as of December 31, 2016 and 2015, respectively.

Compensation costs (net of forfeitures) related to nonvested share awards with market or performance conditions are included in general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income were \$3,896, \$4,360 and \$3,567 for the years ended December 31, 2016, 2015 and 2014, respectively.

On April 9, 2016, the Company finalized the former Chief Financial Officer's severance package and the termination date was set to be no later than April 29, 2016. Pursuant to the terms of the award agreements, a portion of his nonvested share awards with market or performance conditions would vest upon termination. Accordingly, the Company accelerated the recognition of previously unrecognized compensation costs on his nonvested share awards with market or performance conditions over the estimated remaining service period. On May 6, 2016 and May 9, 2016, a portion of his nonvested share awards with market or performance conditions vested, a portion was forfeited and additional shares were earned for awards valued at over 100% of the target, with all remaining previously unrecognized compensation costs recognized. The compensation cost (net of forfeitures) related to his nonvested share awards with market or performance conditions that has been included in general and administrative expense in the accompanying consolidated statements of operations and comprehensive income was \$96 for the year ended December 31, 2016.

For the year ended December 31, 2016, severance expense related to the former Chief Financial Officer's termination totaled \$1,576 and included cash compensation and benefits, compensation for shares with service conditions and shares with market or performance conditions and cash payments related to dividends on restricted shares that vested.

Board of Trustees' Compensation
The Company issues common shares of beneficial interest to the independent members of the Board of Trustees for at least half of their compensation in lieu of cash. The Trustees may elect to receive the remaining half in cash or additional common shares. All or a portion of the shares issued may be deferred. The Company issued an aggregate of 25,113, 18,774 and 15,865 shares, including 9,103, 4,910 and 4,183 deferred shares, related to the Trustees' compensation for the years 2016, 2015 and 2014, respectively.

8.LHL

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

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

	For the year ended		
	December 31,		
	2016	2015	2014
General and administrative	\$103,993	\$101,397	\$87,210
Sales and marketing	75,212	73,654	61,249
Repairs and maintenance	39,309	39,521	37,169
Management and incentive fees	40,064	39,686	36,463
Utilities and insurance	33,109	34,427	32,296
Franchise fees	10,396	9,836	8,346
Other expenses	3,182	2,483	1,775
Total other indirect expenses	\$305,265	\$301,004	\$264,508

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As of December 31, 2016, LHL leased all 46 hotels owned by the Company as follows:

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

⁽¹⁾ Property sold on January 19, 2017 (see Note 13).

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9. Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1998. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its shareholders. It is the Company's current intention to adhere to these requirements and maintain the Company's qualification for taxation as a REIT. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income from non-REIT activities managed through a TRS is subject to federal, state and local income taxes. As a wholly owned TRS of the Company, LHL is required to pay income taxes at the applicable federal, state and local rates.

For federal income tax purposes, the cash distributions paid to the Company's common shareholders of beneficial interest and preferred shareholders may be characterized as ordinary income, return of capital (generally non-taxable) or capital gains. Tax law permits certain characterization of distributions which could result in differences between cash basis and tax basis distribution amounts.

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The following characterizes distributions paid per common share of beneficial interest and preferred share on a tax basis for the years ended December 31, 2016, 2015 and 2014:

	2016			2015			2014		
	\$	%		\$	%		\$	%	
Common shares of beneficial interest									
Ordinary income	\$1.1631	62.26	%	\$1.6570	100.00	%	\$1.4556	100.00	%
Capital gain	0.4550	24.36	%	0.0000	0.00	%	0.0000	0.00	%
Unrecaptured Section 1250 gain	0.2499	13.38	%	0.0000	0.00	%	0.0000	0.00	%
	\$1.8680	100.00	%	\$1.6570	100.00	%	\$1.4556	100.00	%
Preferred shares (Series G) ⁽¹⁾									
Ordinary income	\$0.0000	0.00	%	\$0.0000	0.00	%	\$1.3745	100.00	%
Capital gain	0.0000	0.00	%	0.0000	0.00	%	0.0000	0.00	%
Unrecaptured Section 1250 gain	0.0000	0.00	%	0.0000	0.00	%	0.0000	0.00	%
	\$0.0000	0.00	%	\$0.0000	0.00	%	\$1.3745	100.00	%
Preferred shares (Series H)									
Ordinary income	\$1.4593	62.26	%	\$1.8750	100.00	%	\$1.8750	100.00	%
Capital gain	0.5709	24.36	%	0.0000	0.00	%	0.0000	0.00	%
Unrecaptured Section 1250 gain	0.3136	13.38	%	0.0000	0.00	%	0.0000	0.00	%
	\$2.3438	100.00	%	\$1.8750	100.00	%	\$1.8750	100.00	%
Preferred shares (Series I)									
Ordinary income	\$1.2404	62.26	%	\$1.5938	100.00	%	\$1.5938	100.00	%
Capital gain	0.4853	24.36	%	0.0000	0.00	%	0.0000	0.00	%
Unrecaptured Section 1250 gain	0.2665	13.38	%	0.0000	0.00	%	0.0000	0.00	%
	\$1.9922	100.00	%	\$1.5938	100.00	%	\$1.5938	100.00	%
Preferred shares (Series J) ⁽²⁾									
Ordinary income	\$0.6265	62.26	%	\$0.0000	0.00	%	\$0.0000	0.00	%
Capital gain	0.2451	24.36	%	0.0000	0.00	%	0.0000	0.00	%
Unrecaptured Section 1250 gain	0.1346	13.38	%	0.0000	0.00	%	0.0000	0.00	%
	\$1.0062	100.00	%	\$0.0000	0.00	%	\$0.0000	0.00	%

⁽¹⁾ On July 3, 2014, the Company redeemed its remaining Series G Preferred Shares (see Note 6).

⁽²⁾ On May 25, 2016, the Company issued the Series J Preferred Shares (see Note 6).

The Company's federal and state tax returns for the year ended December 31, 2016 have not been filed. The taxability information presented for the Company's dividends paid in 2016 is based upon management's estimate.

Income tax expense (benefit) was comprised of the following for the years ended December 31, 2016, 2015 and 2014:

	For the year ended December 31,		
	2016	2015	2014
LHL's income tax expense (benefit)	\$ 4,491	\$ (2,546)	\$ 1,260
Operating Partnership's income tax expense	1,293	1,254	1,046
Total income tax expense (benefit)	\$ 5,784	\$ (1,292)	\$ 2,306

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The components of LHL's income tax expense (benefit) and income (loss) before income tax expense (benefit) for the years ended December 31, 2016, 2015 and 2014 were as follows:

	For the year ended December 31,		
	2016	2015	2014
LHL's income tax expense (benefit):			
Federal			
Current	\$1,490	\$(510)	\$912
Deferred	1,901	(1,251)	372
State & local			
Current	516	83	297
Deferred	584	(868)	(321)
Total	\$4,491	\$(2,546)	\$1,260

LHL's income (loss) before income tax expense (benefit) \$10,255 \$(4,876) \$3,559

LHL's provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to LHL's pretax income (loss) for the years ended December 31, 2016, 2015 and 2014 as a result of the following differences:

	For the year ended December 31,		
	2016	2015	2014
"Expected" federal tax expense (benefit) at statutory rate	\$ 3,487	\$(1,658)	\$ 1,210
State income tax expense (benefit), net of federal income tax effect	776	(443)	302
Other, net	228	(445)	(252)
Income tax expense (benefit)	\$ 4,491	\$(2,546)	\$ 1,260

LHL's deferred tax assets (liabilities) as of December 31, 2016 and 2015 were as follows:

	December 31,	
	2016	2015
Net operating loss carryforwards	\$1,902	\$4,175
Bad debt reserves ⁽¹⁾	260	255
Golf membership deferred revenue ⁽¹⁾⁽²⁾	(347)	(343)
Straight-line rent ⁽¹⁾⁽²⁾	(734)	(643)
Other	0	122
Net deferred tax assets	\$1,081	\$3,566

⁽¹⁾ Amounts included in accounts payable and accrued expenses in the accompanying consolidated balance sheets for 2016.

⁽²⁾ For 2015, amounts netted because of the existence of deferred tax assets in both federal and state jurisdictions.

As of December 31, 2016, the Company had net deferred tax assets of \$1,081 primarily due to temporary federal differences and current and past years' state tax net operating losses. These loss carryforwards will generally expire in 2017 through 2035 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets related to state loss carryforwards prior to the expiration of the loss carryforwards and has determined that no valuation allowance is necessary. From time to time, the Company may be subject to federal, state or local tax audits in the normal course of business.

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Regarding accounting for uncertainty in income taxes, GAAP guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the previously unrecognized benefit associated with the position is recognized in the financial statements. This guidance applies to all positions related to income taxes.

The Company has no material unrecognized income tax benefits as of December 31, 2016 and 2015. As of December 31, 2016, the tax years that remain subject to examination by major tax jurisdictions generally include 2012 through 2016.

10. Fair Value Measurements

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

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

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

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

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

Recurring Measurements

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

Description	Consolidated Balance Sheet Location	Fair Value Measurements at	
		December 31, 2016	December 31, 2015
Derivative interest rate instruments	Prepaid expenses and other assets	\$3,295	\$ 1,605
Derivative interest rate instruments	Accounts payable and accrued expenses	\$927	\$ 1,702

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

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Financial Instruments Not Measured at Fair Value

The following table represents the fair value, derived using level 2 inputs, of financial instruments presented at carrying value in the Company's consolidated financial statements as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Note receivable	\$0	\$0	\$80,000	\$80,000
Borrowings under credit facilities	\$0	\$0	\$21,000	\$21,061
Term loans	\$855,000	\$857,224	\$855,000	\$856,038
Bonds payable	\$42,500	\$42,500	\$42,500	\$42,500
Mortgage loans	\$225,000	\$225,224	\$511,294	\$511,786

The Company estimated the fair value of its borrowings under credit facilities, term loans, bonds payable and mortgage loans using interest rates ranging from 1.5% to 1.8% as of December 31, 2016 and from 1.5% to 4.4% as of December 31, 2015 with a weighted average effective interest rate of 1.5% and 2.1% as of December 31, 2016 and 2015, respectively. The assumptions reflect the terms currently available on similar borrowings to borrowers with credit profiles similar to the Company's.

At December 31, 2016 and 2015, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses and distributions payable were representative of their fair values due to the short-term nature of these instruments and the recent acquisition of these items.

11. Earnings per Common Share

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

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

	For the year ended December 31,		
	2016	2015	2014
Numerator:			
Net income attributable to common shareholders	\$234,575	\$123,383	\$197,561
Dividends paid on unvested restricted shares	(491)	(542)	(411)
Undistributed earnings attributable to unvested restricted shares	(70)	0	(138)
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$234,014	\$122,841	\$197,012
Denominator:			
Weighted average number of common shares - basic	112,791,839	112,685,235	104,188,785
Effect of dilutive securities:			
Compensation-related shares	372,760	411,185	357,110
Weighted average number of common shares - diluted	113,164,599	113,096,420	104,545,895
Earnings per Common Share - Basic:			
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$2.07	\$1.09	\$1.89

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Earnings per Common Share - Diluted:

Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$2.07	\$ 1.09	\$ 1.88
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12. Supplemental Information to Statements of Cash Flows

	For the year ended December 31,		
	2016	2015	2014
Interest paid, net of capitalized interest	\$41,483	\$52,155	\$54,558
Interest capitalized	398	902	400
Income taxes paid, net	5,111	3,112	815
Increase in distributions payable on common shares	58	8,477	13,227
Increase (decrease) in distributions payable on preferred shares	2,363	0	(1,064)
Redemption of common units for common shares	0	3,400	0
Write-off of fully depreciated furniture, fixtures and equipment	0	16,000	582
Write-off of fully amortized debt issuance costs	826	131	273
(Decrease) increase in accrued capital expenditures	(6,149)	2,334	(994)
Grant of nonvested shares and awards to employees and executives, net	4,831	5,188	7,953
Issuance of common shares for Board of Trustees compensation ⁽¹⁾	480	1,874	602
In conjunction with the sale of properties, the Company disposed of the following assets and liabilities:			
Sale proceeds, net of closing costs	\$164,094	\$0	\$167,921
Other assets	4,226	0	1,397
Liabilities	(1,655)	0	(1,480)
Proceeds from sale of properties	\$166,665	\$0	\$167,838
In conjunction with the acquisition of properties, the Company assumed the following assets and liabilities:			
Investment in properties (after credits at closing)	\$0	\$(445,734)	\$(194,198)
Other assets	0	(1,897)	(1,361)
Liabilities	0	8,474	4,448
Acquisition of properties	\$0	\$(439,157)	\$(191,111)

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

13. Subsequent Events

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

On January 4, 2017, the Company received 54,410 common shares of beneficial interest related to executives and employees surrendering shares to pay taxes at the time restricted shares vested.

On January 31, 2017 the Company issued 27,767 common shares of beneficial interest, related to a former Board of Trustee member, for his accumulated deferred shares granted as compensation for years 2001 through 2016. Of the common shares of beneficial interest issued, 4,888 were issued under the 2014 Plan and the remaining 22,879 were issued under the 2009 Plan.

The Company paid the following common and preferred share dividends subsequent to December 31, 2016:

Security Type	Dividend per Share/Unit (1)	For the Quarter Ended	Record Date	Date Paid
Common Shares/Units	\$ 0.45	December 31, 2016	December 30, 2016	January 17, 2017
7.5% Series H Preferred Shares	\$ 0.47	December 31, 2016	December 30, 2016	January 17, 2017
6.375% Series I Preferred Shares	\$ 0.40	December 31, 2016	December 30, 2016	January 17, 2017
6.3% Series J Preferred Shares	\$ 0.39	December 31, 2016	December 30, 2016	January 17, 2017

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

On January 10, 2017, the Company refinanced its senior unsecured credit facility and First Term Loan. The \$750,000 senior unsecured credit facility has a revised accordion feature which, subject to certain terms and conditions, entitles

the Company to request additional lender commitments, allowing for total commitments of up to \$1,250,000. The new maturity date is January 8, 2021, subject to two six-month extension options, pursuant to certain terms and conditions, including payment of an extension

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fee. Borrowings bear interest at variable rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin, or (ii) an Adjusted Base Rate (as defined in the credit agreement) plus an applicable margin. The \$300,000 First Term Loan includes an accordion feature, which subject to certain terms and conditions, entitles the Company to request additional lender commitments, allowing for total commitments of up to \$500,000. The First Term Loan matures on January 10, 2022 and bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements) through August 2, 2017 (see Note 4).

On January 10, 2017, the Company amended and restated its \$555,000 Second Term Loan to match the financial and other covenants in its refinanced First Term Loan and senior unsecured credit facility. There were no changes to the maturity date or the accordion feature. The Second Term Loan bears interest at variable rates, but was hedged to a fixed interest rate based on the Company's current leverage ratio (as defined in the swap agreements) through May 16, 2019 for \$177,500 of the Second Term Loan and through January 29, 2021 for the remaining \$377,500 of the Second Term Loan (see Note 4).

Additionally, LHL refinanced its unsecured revolving credit facility with no change in capacity of \$25,000, on similar terms as the senior unsecured credit facility. The new maturity date is January 10, 2021, subject to two six-month extension options, pursuant to certain terms and conditions, including payment of an extension fee.

On January 19, 2017, the Company sold Hotel Deca for \$55,000. Substantially all of the assets held for sale consist of investment in hotel properties, net and immaterial prepaid expenses and other assets and the liabilities of assets held for sale consist of accounts payable and accrued expenses. The Company will recognize a gain in the first quarter of 2017 of approximately \$30,500 related to the sale of this property. The proceeds will be used for general corporate purposes.

In February 2017, the Company's Board of Trustees authorized an expansion of the Repurchase Program to acquire up to an additional \$500,000 of the Company's common shares of beneficial interest. Including the previous authorization, the Company now has availability under the Repurchase Program to acquire up to \$569,807 of common shares of beneficial interest as of February 22, 2017.

14. Quarterly Operating Results (Unaudited)

The Company's unaudited consolidated quarterly operating data for the years ended December 31, 2016 and 2015 (in thousands, except per share data) follows. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of quarterly results have been reflected in the data. It is also management's opinion, however, that quarterly operating data for hotel enterprises are not indicative of results to be achieved in succeeding quarters or years.

	Year Ended December 31, 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$261,758	\$ 352,763	\$ 431,652	\$ 289,477
Total expenses	252,684	293,143	273,974	262,714
Net income	9,074	59,620	157,678	26,763
Net income attributable to noncontrolling interests	(15)	(89)	(203)	(47)
Distributions to preferred shareholders	(3,042)	(4,355)	(5,405)	(5,404)
Net income attributable to common shareholders	\$6,017	\$ 55,176	\$ 152,070	\$ 21,312
Earnings per Common Share—Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.05	\$ 0.49	\$ 1.34	\$ 0.19
Earnings per Common Share—Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.05	\$ 0.49	\$ 1.34	\$ 0.19
Weighted average number of common shares outstanding:				
Basic	112,748,492	112,784,976	112,811,403	112,821,939
Diluted	113,108,158	113,113,253	113,159,844	113,185,883

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	Year Ended December 31, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$250,809	\$ 341,387	\$ 331,004	\$ 296,322
Total expenses	248,071	282,376	283,462	269,784
Net income	2,738	59,011	47,542	26,538
Net income attributable to noncontrolling interests	(15	) (147	) (75	) (40
Distributions to preferred shareholders	(3,042	) (3,042	) (3,043	) (3,042
Net (loss) income attributable to common shareholders	\$(319	) \$ 55,822	\$ 44,424	\$ 23,456
Earnings per Common Share—Basic:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.00	\$ 0.49	\$ 0.39	\$ 0.21
Earnings per Common Share—Diluted:				
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.00	\$ 0.49	\$ 0.39	\$ 0.21
Weighted average number of common shares outstanding:				
Basic	112,647,715	112,728,085	112,731,358	112,633,429
Diluted	112,647,715	113,141,908	113,137,284	113,028,661

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LASALLE HOTEL PROPERTIES

Schedule III—Real Estate and Accumulated Depreciation

As of December 31, 2016

(in thousands)

		Initial Cost				Cost Capitalized Subsequent to Acquisition ⁽¹⁾			Gross Amount at End of Year		
		Encumbrances	Land	Building and Improvements	Furniture, Fixtures and Equipment	Land	Building and Improvements	Furniture, Fixtures and Equipment	Land	Building and Improvements	Furniture, Fixtures and Equipment
1.	Le Montrose Suite Hotel San Diego	\$0	\$5,004	\$19,752	\$2,951	\$0	\$5,764	\$14,418	\$5,004	\$25,516	\$1
2.	Paradise Point Resort and Spa	0	0	69,639	3,665	154	43,196	35,711	154	112,835	39
3.	Hyatt Regency Boston Harbor	42,500	0	66,159	5,246	16	5,059	15,952	16	71,218	21
4.	Topaz Hotel	0	2,137	8,549	0	12	4,307	6,845	2,149	12,856	6,8
5.	Hotel Madera	0	1,682	6,726	0	15	5,559	6,643	1,697	12,285	6,6
6.	Hotel Rouge	0	2,162	8,647	0	17	5,071	8,233	2,179	13,718	8,2
7.	Mason & Rook Hotel	0	2,636	10,546	0	14	26,545	8,718	2,650	37,091	8,7
8.	The Liaison Capitol Hill	0	8,353	33,412	2,742	19	15,647	23,494	8,372	49,059	26
9.	Lansdowne Resort	0	27,421	74,835	3,114	33,333	28,210	37,225	60,754	103,045	40
10.	Hotel George Chaminade	0	1,743	22,221	531	0	1,141	8,745	1,743	23,362	9,2
11.	Resort and Conference Center	0	5,240	13,111	299	24	9,124	17,817	5,264	22,235	18
12.	Hilton San Diego Gaslamp Quarter	0	5,008	77,892	2,250	0	1,508	11,897	5,008	79,400	14
13.	The Grafton on Sunset	0	1,882	23,226	431	11	3,695	9,666	1,893	26,921	10
14.	Onyx Hotel	0	6,963	21,262	445	3,568	212	3,943	10,531	21,474	4,3
15.	Westin Copley Place	225,000	0	295,809	28,223	0	24,909	51,845	0	320,718	80
16.	Hotel Deca ⁽²⁾	0	4,938	21,720	577	0	885	6,315	4,938	22,605	6,8
17.	The Hilton San Diego Resort and Spa	0	0	85,572	4,800	122	15,900	20,377	122	101,472	25
18.	The Donovan	0	11,384	34,573	0	0	36,539	15,751	11,384	71,112	15
19.	Le Parc Suite Hotel	0	13,971	31,742	2,741	3	2,550	10,684	13,974	34,292	13
20.	Westin Michigan Avenue	0	38,158	154,181	24,112	17	19,557	39,639	38,175	173,738	63
21.	Hotel Chicago	0	9,403	104,148	889	155	32,177	29,433	9,558	136,325	30
22.	Alexis Hotel	0	6,581	31,062	578	13	10,716	8,562	6,594	41,778	9,1

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23.	Hotel Solamar	0	0	79,111	7,890	0	717	12,715	0	79,828	20	
24.	Gild Hall	0	6,732	45,016	984	2	3,157	13,557	6,734	48,173	14	
25.	Hotel Amarano Burbank Sofitel	0	5,982	29,292	1,253	329	6,394	8,193	6,311	35,686	9,4	
26.	Washington, DC Lafayette Square	0	11,082	80,342	2,619	0	409	14,111	11,082	80,751	16	
27.	The Marker San Francisco	0	11,435	53,186	3,736	0	1,930	9,832	11,435	55,116	13	
28.	Westin Philadelphia Embassy Suites	0	35,100	106,100	3,776	0	817	9,974	35,100	106,917	13	
29.	Philadelphia - Center City	0	13,600	62,900	2,504	0	2,554	8,536	13,600	65,454	11	
30.	The Roger Chamberlain	0	0	95,079	3,509	0	122	12,310	0	95,201	15	
31.	West Hollywood	0	6,470	29,085	2,895	0	356	4,185	6,470	29,441	7,0	
32.	Viceroy Santa Monica	0	0	75,270	4,747	0	390	5,168	0	75,660	9,9	
33.	Villa Florence Park Central	0	12,413	50,997	3,202	0	0	9,912	12,413	50,997	13	
34/35.	Hotel New York/WestHouse	0	135,306	250,262	9,004	0	41,840	50,830	135,306	292,102	59	
36.	Hotel New York Hotel Palomar, Washington, DC	0	26,859	111,214	5,648	0	890	12,678	26,859	112,104	18	
37.	L'Auberge Del Mar	0	13,475	59,481	3,628	125	19	4,476	13,600	59,500	8,1	
38.	The Liberty Hotel	0	0	160,731	9,040	0	263	14,288	0	160,994	23	
39.	Harbor Court Hotel	0	0	54,563	714	0	701	455	0	55,264	1,1	
40.	Hotel Triton	0	0	37,253	1,379	0	(2,284)	718	0	34,969	2,0	
41.	Serrano Hotel	0	20,475	48,501	2,500	0	219	1,055	20,475	48,720	3,5	
42.	Southernmost Beach Resort Key West	0	101,517	79,795	3,105	0	1,676	3,054	101,517	81,471	6,1	
43.	Hotel Vitale	0	0	125,150	4,766	0	(241)	735	0	124,909	5,5	
44.	The Heathman Hotel	0	10,280	50,001	4,002	0	1,268	352	10,280	51,269	4,3	
45.	Pack Central San Francisco	0	80,640	255,105	14,057	0	56	1,586	80,640	255,161	15	
46.	The Marker Waterfront Resort	0	48,133	41,143	6,656	0	0	722	48,133	41,143	7,3	
	Total		\$267,500	\$694,165	\$3,194,361	\$185,208	\$37,949	\$359,524	\$591,355	\$732,114	\$3,553,885	\$7

(1) Costs of disposals, impairments and reclassifications to property under development are reflected as reductions to cost capitalized subsequent to acquisition. Reclassifications from property under development are reflected as increases to cost capitalized subsequent to acquisition.

(2) As of December 31, 2016, Hotel Deca was classified as held for sale. The property was sold on January 19, 2017.

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LASALLE HOTEL PROPERTIES

Schedule III—Real Estate and Accumulated Depreciation—Continued
As of December 31, 2016

Reconciliation of Real Estate and Accumulated Depreciation:

Reconciliation of Real Estate:

Balance at December 31, 2013	\$4,351,073
Acquisition of hotel properties	194,198
Improvements and additions to hotel properties	66,706
Reclassification from property under development	14,163
Disposal of hotels	(130,846)
Disposal of assets	(1,220)
Balance at December 31, 2014	\$4,494,074
Acquisition of hotel properties	445,734
Improvements and additions to hotel properties	93,599
Reclassification from property under development	30,343
Disposal of assets	(16,488)
Balance at December 31, 2015	\$5,047,262
Improvements and additions to hotel properties	82,148
Reclassification from property under development	46,292
Disposal of hotel	(112,718)
Disposal of assets	(422)
Balance at December 31, 2016	\$5,062,562

Reconciliation of Accumulated Depreciation:

Balance at December 31, 2013	\$967,885
Depreciation	154,585
Disposal of hotels	(56,130)
Disposal of assets	(822)
Balance at December 31, 2014	\$1,065,518
Depreciation	180,346
Disposal of assets	(16,278)
Balance at December 31, 2015	\$1,229,586
Depreciation	191,791
Disposal of hotel	(53,697)
Disposal of assets	(207)
Balance at December 31, 2016	\$1,367,473