ASHFORD HOSPITALITY TRUST INC
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2013
OR

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

For the transition period from to
Commission file number: 001-31775
ASHFORD HOSPITALITY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	86-1062192
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
14185 Dallas Parkway, Suite 1100 Dallas, Texas	75254
(Address of principal executive offices)	(Zip code)

(972) 490-9600
(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 Stock	New York Stock Exchange
Preferred Stock, Series A	New York Stock Exchange
Preferred Stock, Series D	New York Stock Exchange
Preferred Stock, Series E	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. þ Yes ¨ No

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

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. þ Yes ¨ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

As of June 28, 2013, the aggregate market value of 74,467,843 shares of the registrant's common stock held by non-affiliates was approximately $852,657,000.

As of February 27, 2014, the registrant had 80,565,563 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement pertaining to the 2014 Annual Meeting of Shareholders are incorporated herein by reference into Part III of this Form 10-K.

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ASHFORD HOSPITALITY TRUST, INC.
YEAR ENDED DECEMBER 31, 2013
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This Annual Report is filed by Ashford Hospitality Trust, Inc., a Maryland corporation (the "Company"). Unless the context otherwise requires, all references to the Company include those entities owned or controlled by the Company. In this report, the terms "the Company," "we," "us" or "our" mean Ashford Hospitality Trust, Inc. and all entities included in its consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Throughout this Form 10-K and documents incorporated herein by reference, we make forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible, estimated or assumed future results of our business, financial condition and liquidity, results of operations, plans, and objectives. Statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- anticipated or expected purchases or sales of assets;
- our projected operating results;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures; and
- the impact of technology on our operations and business.

Such forward-looking statements are based on our beliefs, assumptions, and expectations of our future performance taking into account all information currently known to us. These beliefs, assumptions, and expectations can change as a result of many potential events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations, plans, and other objectives may vary materially from those expressed in our forward-looking statements. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

- factors discussed in this Form 10-K, including those set forth under the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and "Properties;"
- general volatility of the capital markets and the market price of our common and preferred stock;
- changes in our business or investment strategy;
- availability, terms, and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or the general economy; and
- the degree and nature of our competition.

When we use words or phrases such as "will likely result," "may," "anticipate," "estimate," "should," "expect," "believe," "int similar expressions, we intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I

Item 1. Business

GENERAL

Ashford Hospitality Trust, Inc., together with its subsidiaries, is a self-administered real estate investment trust ("REIT") focused on investing in the hospitality industry across all segments and in all methods including direct real estate, equity and debt. Additional information can be found on our website at www.ahtreit.com. We were formed as a Maryland corporation in May 2003 and commenced operations in August 2003 with the acquisition of six hotel properties in connection with our initial public offering. We own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. Ashford OP General Partner LLC, a wholly-owned subsidiary of the Company, serves as the sole general partner of our operating partnership.

Our hotels are primarily operated under the widely recognized upscale and upper upscale brands of Hilton, Hyatt, Marriott, Starwood and Intercontinental Hotels Group. Currently, all of our hotels are located in the United States. As of December 31, 2013, we owned interests in the following hotel properties and notes receivable:

- 87 consolidated hotel properties ("legacy hotel properties"), including 85 directly owned and two owned through majority-owned investments in consolidated entities, which represent 17,030 total rooms (or 17,003 net rooms excluding those attributable to our partners),
- 28 hotel properties owned through a 71.74% common equity interest and a 50.0% preferred equity interest in an unconsolidated joint venture ("PIM Highland JV"), which represent 8,084 total rooms (or 5,800 net rooms excluding those attributable to our joint venture partner),
- 90 hotel condominium units at WorldQuest Resort in Orlando, Florida, and
- a mezzanine loan with a carrying value of $3.4 million.

The following briefly summarizes certain acquisitions and transactions that we have completed since our inception:

- Effective December 2, 2011, one of our partners assigned to us its 11% ownership interest in an entity, in which we previously had an 89% ownership interest.
- In March 2011, in connection with the foreclosure on a mezzanine loan held in a joint venture with Prudential Real Estate Investors ("PREI"), we and PREI each invested additional funds and each contributed an existing mezzanine loan to form a new joint venture, the PIM Highland JV, which acquired the 28-hotel property portfolio (the "Highland Portfolio") securing the two mezzanine loans. Our investment was $150.0 million. We have an ownership interest of 71.74% in PIM Highland JV's common equity and a $25.0 million preferred equity interest. Although we have the majority ownership interest and can exercise significant influence over the joint venture, we do not control the activities that most significantly impact the PIM Highland JV's economic performance. All the major decisions related to the joint venture, including establishment of policies and operating procedures with respect to business affairs, incurring obligations and expenditures, are subject to the approval of an executive committee, which is comprised of four persons, of which we and our joint venture partner each designate two persons. As a result, we are not the primary beneficiary of PIM Highland JV and therefore it is not consolidated. Our investment in the joint venture is accounted for using the equity method. The Highland Portfolio consists of high quality full-service and select-service hotel properties with 8,084 total rooms, or 5,800 net rooms excluding those attributable to our joint venture partner.
- Additionally, in March 2011, we acquired 96 hotel condominiums units at WorldQuest Resort in Orlando, Florida ("WorldQuest") for $12.0 million and subsequently sold two units in 2011 and four units in 2013. At December 31, 2013, we owned 90 units. At December 31, 2013, we also wholly owned one mezzanine loan with a net carrying value of $3.4 million.
- Beginning in March 2008, we entered into various derivative transactions with financial institutions to hedge our debt, to improve cash flows, and to capitalize on the historical correlation between changes in London Interbank

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Offered Rate ("LIBOR") and Revenue Per Available Room ("RevPAR"). The derivative instruments associated with these transactions had all expired by March 2013. Through December 31, 2013, we recorded cash and accrued income of $234.4 million from the derivative transactions.

For federal income tax purposes, we have elected to be treated as a REIT, which imposes limitations related to operating hotels. As of December 31, 2013, all of our 87 legacy hotel properties were leased or owned by our wholly-owned subsidiaries that are treated as taxable REIT subsidiaries for federal income tax purposes (collectively, these subsidiaries are referred to as “Ashford TRS”). Ashford TRS then engages third-party or affiliated hotel management companies to operate the hotels under management contracts. Hotel operating results related to these properties are included in the consolidated statements of operations. With respect to our unconsolidated joint venture, PIM Highland JV, the 28 hotels are leased to PIM Highland JV’s wholly-owned subsidiary, which is treated as a taxable REIT subsidiary for federal income tax purposes.

We do not operate any of our hotels directly; instead we employ hotel management companies to operate them for us under management contracts. Remington Lodging & Hospitality, LLC, together with its affiliates (“Remington Lodging”), is our primary property manager, and is beneficially wholly-owned by Mr. Monty J. Bennett, our Chairman and Chief Executive Officer, and Mr. Archie Bennett, Jr., our Chairman Emeritus. As of December 31, 2013, Remington Lodging managed 54 of our 87 legacy hotel properties, while third-party management companies managed the remaining 33 hotel properties. In addition, as of December 31, 2013, Remington Lodging managed 21 of the 28 PIM Highland JV hotel properties and the WorldQuest condominium properties.

SIGNIFICANT TRANSACTIONS IN 2013 AND RECENT DEVELOPMENTS

Refinanced our $141.7 Million Mortgage Loan - On February 26, 2013, we refinanced our $141.7 million loan due August 2013, which had an outstanding balance of $141.0 million, with a $199.9 million loan due February 2018. The new loan provides for an interest rate of LIBOR + 3.50%, with no LIBOR floor. The new loan continues to be secured by the Capital Hilton in Washington, DC and the Hilton La Jolla Torrey Pines in La Jolla, California. We had a 75% ownership interest in the properties, with Hilton holding the remaining 25%. The excess loan proceeds above closing costs and reserves were distributed to the partners on a pro rata basis. Our share of the excess loan proceeds was approximately $40.5 million, which was added to our unrestricted cash balance. These properties were included in the spin-off of Ashford Hospitality Prime, Inc. discussed below.

Acquisition of the Pier House Resort - On May 14, 2013, we acquired a 100% interest in the Pier House Resort in Key West, Florida, for a contractual purchase price of $90.0 million in cash. In connection with the acquisition, we incurred transaction costs of $901,000, which are included in transaction costs on the consolidated statement of operations. The purchase price has been allocated to the assets acquired and liabilities assumed using the estimated fair value at the date of acquisition based on a third party appraisal.

Common Stock Offering - On June 20, 2013, we commenced a follow-on public offering of 11.0 million shares of our common stock at $12.00 per share for gross proceeds of $132.0 million. The aggregate proceeds, net of the 4.25% underwriting discount and other expenses of $500,000, were approximately $125.9 million. The offering settled on June 26, 2013. We granted the underwriters a 30-day option to purchase up to an additional 1.65 million shares of our common stock. On July 24, 2013, the underwriters partially exercised their option and purchased an additional 1.25 million shares of our common stock at a price of $12.00 per share less the underwriting discount resulting in additional proceeds of approximately $14.2 million.

$69.0 Million Pier House Financing - On September 10, 2013, we completed the financing for a $69.0 million loan due September 2015 and secured by the Pier House Resort. The new financing has a two-year term and three, one-year extension options with no test requirements for the first two extensions. The loan provides for a floating interest rate of LIBOR + 4.90%, with no LIBOR Floor. The loan proceeds, net of typical closing costs and reserves, were added to our unrestricted cash balance.

Spin-off of an 8-hotel Portfolio - On June 17, 2013, we announced that our Board of Directors had approved a plan to spin-off an 80% ownership interest in an 8-hotel portfolio, totaling 3,146 rooms (2,912 net rooms excluding those attributable to our partners), to holders of our common stock in the form of a taxable special distribution. This distribution was comprised of common stock in Ashford Hospitality Prime, Inc. (“Ashford Prime”), a newly formed company. We contributed the portfolio interests into Ashford Hospitality Prime Limited Partnership ("Ashford Prime

OP"), Ashford Prime's operating partnership. The distribution was made on November 19, 2013, on a pro rata basis to holders of our common stock as of November 8, 2013, with each of our shareholders receiving one share of Ashford Prime common stock for every five shares of our common stock held by such shareholder as of the close of business on November 8, 2013. Ashford Prime is expected to qualify as a REIT for federal income tax purposes, and is listed on the New York Stock Exchange, under the symbol “AHP.” The transaction also includes options for Ashford Prime to purchase the Crystal Gateway Marriott in Arlington, Virginia and the Pier House Resort in Key West, Florida. Ashford Hospitality Advisors LLC, our subsidiary acts as external advisor to Ashford Prime.

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$18.2 Million Loan Financings - On December 20, 2013, we refinanced a $6.5 million loan due April 2034, with a $10.8 million loan due January 2024. The new loan provides for a fixed interest rate of 5.49%. The new loan continues to be secured by the Residence Inn Jacksonville. Additionally, we completed the financing for a $7.4 million loan due January 2024. The new loan provides for a fixed interest rate of 5.49% and is secured by the Residence Inn Manchester. We have an 85% ownership interest in the property, with Interstate Hotels & Resorts holding the remaining 15%. Our share of the excess loan proceeds were added to our unrestricted cash balance.

Proposed Spin-off of Asset Management Business - On February 27, 2014, we announced that our Board of Directors has unanimously approved a plan to spin-off its asset management business into a separate publicly traded company in the form of a taxable distribution. The distribution is expected to be completed in the third quarter of 2014, and we anticipate that the distribution will be comprised of common stock in Ashford, Inc. (“Ashford Inc.”), a newly formed or successor company of our current subsidiary Ashford Hospitality Advisors LLC. We also expect that Ashford Inc. will file an application to list its shares on the NYSE or NYSE MKT Exchanges. In connection with the proposed spin-off, we expect that Ashford Inc. will enter into a 20-year advisory agreement to externally advise the Company. Ashford Inc. will continue to externally advise Ashford Prime. This distribution is anticipated to be declared during the third quarter of 2014; however, it remains subject to the filing of the required registration statement with the Securities and Exchange Commission ("SEC"), the review of the registration statement by the SEC, the approval of the listing of shares by the applicable exchange, and other legal requirements. The Company cannot be certain this distribution will proceed or proceed in the manner as currently anticipated.

Sale of Pier House Resort - On March 1, 2014, we closed on the sale of the Pier House Resort to Ashford Prime. The sales price was $92.7 million. Ashford Prime assumed the $69 million mortgage and paid the balance of the purchase price in cash.

BUSINESS STRATEGIES

Following the recession that commenced in 2008, the lodging industry has experienced improvement in fundamentals, which continued through 2013. Room rates, measured by the average daily rate ("ADR"), which typically lags occupancy growth in the early stage of a recovery, have shown upward growth. We believe improvements in the economy will continue to positively impact the lodging industry and hotel operating results for several years to come, and we will continue to seek ways to benefit from the cyclical nature of the hotel industry. We believe that in the prior cycle, hotel values and cash flows, for the most part, peaked in 2007, and we believe the hotel industry may exceed these cash flows and values during the next cyclical peak.

Based on our primary business objectives and forecasted operating conditions, our current key priorities and financial strategies include, among other things:

- acquisition of hotel properties;
- disposition of non-core hotel properties;
- investing in securities;
- pursuing capital market activities to enhance long-term shareholder value;
- preserving capital, enhancing liquidity, and continuing current cost saving measures;
- implementing selective capital improvements designed to increase profitability;
- implementing effective asset management strategies to minimize operating costs and increase revenues;
- financing or refinancing hotels on competitive terms;
- utilizing hedges and derivatives to mitigate risks; and
- making other investments or divestitures that our Board of Directors deems appropriate.

Our investment strategies continue to focus on the full-service and select-service hotels in the upscale and upper-upscale segments within the lodging industry that have RevPAR generally less than twice the national average. We believe that as supply, demand, and capital market cycles change, we will be able to shift our investment strategies to take advantage of new lodging-related investment opportunities as they may develop. Our Board of Directors may change our investment strategies at any time without shareholder approval or notice.

As the business cycle changes and the hotel markets continue to improve, we intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions including our cost of capital and the expected returns from those investments. Our investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or acquisition; (iii) first-lien mortgage financing through origination or acquisition; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of lodging industry conditions and adjust to changes in market circumstances over time. Our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and our investment returns.

Our strategy of combining lodging-related equity and debt investments seeks, among other things, to:

- capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry; and
- vary investments across an array of hospitality assets to take advantage of market cycles for each asset class.

To take full advantage of future investment opportunities in the lodging industry, we intend to invest according to the asset allocation strategies described below. However, due to ongoing changes in market conditions, we will continually evaluate the appropriateness of our investment strategies. Our Board of Directors may change any or all of these strategies at any time without shareholder approval or notice.

Direct Hotel Investments – In selecting hotels to acquire, we target hotels that offer either a high current return or the opportunity to increase in value through repositioning, capital investments, market-based recovery, or improved management practices. Our direct hotel acquisition strategy primarily targets full-service and select-service hotels in primary, secondary, and resort markets, typically throughout the United States and will seek to achieve both current income and appreciation. In addition, we will continue to assess our existing hotel portfolio and make strategic decisions to sell certain under-performing or non-strategic hotels that do not fit our investment strategy or criteria due to micro or macro market changes or other reasons.

Mezzanine Financing – Subordinated loans, or mezzanine loans, that we acquire or originate may relate to a diverse segment of hotels that are located across the U.S. These mezzanine loans are secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels. As the global economic environment improves and the hotel industry stabilizes, we may refocus our efforts on the acquisition or origination of mezzanine loans. Given the greater repayment risks of these types of loans, to the extent we acquire or originate them in the future, we will have a more conservative approach in underwriting these assets. Mezzanine loans that we acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets.

First Mortgage Financing – From time to time, we may acquire or originate first mortgages. As the dynamics in the capital markets and the hotel industry make first-mortgage investments more attractive, we may acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. We may be subject to certain state-imposed licensing regulations related to commercial mortgage lenders, with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to state and federal regulatory constraints imposed on such entities.

Sale-Leaseback Transactions – To date, we have not participated in any sale-leaseback transactions. However, if the lodging industry fundamentals shift such that sale-leaseback transactions become more attractive investments, we intend to purchase hotels and lease them back to their existing hotel owners.

Other Transactions - We may also invest in other lodging related assets or businesses that offer diversification, attractive risk adjusted returns, and/or capital allocation benefits.

BUSINESS SEGMENTS

We currently operate in two business segments within the hotel lodging industry: direct hotel investments and hotel financing. A discussion of each operating segment is incorporated by reference to Note 22 of Notes to Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data.

FINANCING STRATEGY

We utilize debt to increase equity returns. When evaluating our future level of indebtedness and making decisions regarding the incurrence of indebtedness, our Board of Directors considers a number of factors, including:

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- our leverage levels across the portfolio;
- the purchase price of our investments to be acquired with debt financing;
- impact on financial covenants;
- cost of debt;
- loan maturity schedule;
- the estimated market value of our investments upon refinancing;
- the ability of particular investments, and our Company as a whole, to generate cash flow to cover expected debt service; and.
- trailing twelve months net operating income of the hotel to be financed.

We may incur debt in the form of purchase money obligations to the sellers of properties, publicly or privately placed debt instruments, or financing from banks, institutional investors, or other lenders. Any such indebtedness may be secured or unsecured by mortgages or other interests in our properties. This indebtedness may be recourse, non-recourse, or cross-collateralized. If recourse, such recourse may include our general assets or be limited to the particular investment to which the indebtedness relates. In addition, we may invest in properties or loans subject to existing loans secured by mortgages or similar liens on the properties, or we may refinance properties acquired on a leveraged basis.

We may use the proceeds from any borrowings for working capital to:

- purchase interests in partnerships or joint ventures;
- finance the origination or purchase of debt investments; or
- finance acquisitions, expand, redevelop or improve existing properties, or develop new properties or other uses.

In addition, if we do not have sufficient cash available, we may need to borrow to meet taxable income distribution requirements under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). No assurances can be given that we will obtain additional financings or, if we do, what the amount and terms will be. Our failure to obtain future financing under favorable terms could adversely impact our ability to execute our business strategy. In addition, we may selectively pursue debt financing on our individual properties and debt investments.

DISTRIBUTION POLICY

In December 2012, the Board of Directors approved our dividend policy for 2013 with an annualized target of $0.48 per share. For the year ended December 31, 2013, we have declared dividends of $0.48 per share. We may incur indebtedness to meet distribution requirements imposed on REITs under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to fund required distributions. We may elect to pay dividends on our common stock in cash or a combination of cash and shares of securities as permitted under federal income tax laws governing REIT distribution requirements. We may pay dividends in excess of our cash flow. Distributions are authorized by our Board of Directors and declared by us based upon a variety of factors deemed relevant by our directors. No assurance can be given that our dividend policy will not change in the future. In December 2013, the Board of Directors approved our dividend policy for 2014 and we expect to pay a quarterly dividend of $0.12 per share during 2014. The adoption of a dividend policy does not commit our Board of Directors to declare future dividends or the amount thereof. The Board of Directors will continue to review our dividend policy on a quarterly basis. Our ability to pay distributions to our shareholders will depend, in part, upon our receipt of distributions from our operating partnership. This, in turn, may depend upon receipt of lease payments with respect to our properties from indirect, wholly-owned subsidiaries of our operating partnership and the management of our properties by our property managers. Distributions to our shareholders are generally taxable to our shareholders as ordinary income. However, since a portion of our investments are equity ownership interests in hotels, which result in depreciation and non-cash charges against our income, a portion of our distributions may constitute a non-taxable return

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of capital, to the extent of a shareholder's tax basis in the stock. To the extent that it is consistent with maintaining our REIT status, we may maintain accumulated earnings of Ashford TRS in that entity.

Our charter allows us to issue preferred stock with a preference on distributions, such as our Series A, Series D and Series E preferred stock. The partnership agreement of our operating partnership also allows the operating partnership to issue units with a preference on distributions, such as our class B common units. The issuance of these series of preferred stock and units together with any similar issuance in the future, given the dividend preference on such stock or units, could limit our ability to make a dividend distribution to our common shareholders.

COMPETITION

The hote